

The Politics of Employment Insecurity:
Globalization, Deindustrialization and the Welfare State

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ABSTRACT

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At the heart of debates about the effects of globalization and the service economy on the welfare state is the notion of employment insecurity. It is considered a key causal mechanism through which cross-border movements of capital, goods and services (globalization) and employment shifts from manufacturing to services (deindustrialization) affect social policy. However, empirical research on such a causal linkage has been markedly lacking. In many cases, employment insecurity has been simply assumed to be the causal mechanism at work behind the observed relationship between economic globalization or deindustrialization and governments' commitment to social protection.

This dissertation brings the hidden causal mechanism to the fore by using *employment protection* both as an explanatory and a dependent variable. Employment protection, which refers to regulatory frameworks that govern hiring and firing, has a direct bearing on workers' job security and can capture the politics of labor market risks. This dissertation consists of two projects. First, it examines how globalization and the service economy affect employment

protection. Second, it analyzes how employment protection influences institutions of social protection.

Focusing on the preferences and political strength of skilled workers, I argue that the effects of international trade and the service economy on employment protection depend on the relative scarcity of skilled labor and on the patterns of employment shifts between industries. I also contend that whether employment insecurity leads to expanded social protection depends on the social policy preference of skilled workers, which in turn, is shaped by the skill distribution in the economy and by pre-existing social protection institutions.

This study finds that employment protection is both a political response to external and internal economic changes and a driving force for social policy change. Moreover, it highlights different causal processes for developed and developing economies. It offers statistical evidence based on two extensive cross-national time-series datasets of employment protection in the OECD and Latin America, and uses a case study of South Korea as qualitative evidence to elucidate the underlying dynamics of its quantitative findings.

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To My Grandma

CHAPTER ONE

Introduction

The notion of labor market risks has long had a central place in the literature on the welfare state. The emergence of the modern industrial economy drove multitudes of people into the national labor market, completely reorganizing their lives and commodifying their labor. Their livelihood became dependent on participation in labor markets that do not always function smoothly and efficiently. However, human beings are different from other commodities, in that a plummeting demand manifested in unemployment can annihilate the very existence of workers and their families, as Karl Polanyi (2001) pointed out. And humans that are subject to illness, accidents and old-age are not always able to participate in the labor market. Inevitably, the constant presence of labor market risks has invited collective and institutional solutions, and the welfare state is considered one of them (Baldwin, 1990).

Economic globalization in recent decades has drawn attention to one particular type of labor market risks—employment insecurity.¹ The integration of markets can shift demand curves for labor, causing employment to become volatile and wages to fall for some groups of workers. Observing the growing influence of the international economy and seemingly related labor market developments on worker insecurity, scholarly interest in the welfare state has reformulated the research question as follows: if globalization generates greater employment insecurity, how would it affect the welfare state?

¹ Throughout this dissertation, I use *employment insecurity* and *job insecurity* interchangeably, and in some cases, broader terms such as *labor market insecurity* and *labor market risks* are also used to denote employment insecurity specifically. Employment insecurity encompasses two concepts: *risk of unemployment* and *precariousness of employment*. The risk of unemployment refers to the probability and frequency of termination of employment relationships at the employers' will. Precariousness of employment refers to the risk that someone will not be employed on a regular, indefinite employment contract, but will have a job that is inferior in terms of duration, wages, social insurance or other regulatory protections.

At the same time, internal transformations in the market economy have drawn attention as a new source of labor market insecurity (Pierson, 2001). Services have grown in importance in advanced industrial economies, while employment in traditional manufacturing sectors has declined. Large scale of displacement of industrial workers, along with the noticeable rise of low-skill, low-paying and unstable jobs in the service industry, pose new challenges for workers and have significant implications for the welfare state, which has been premised upon the “industrial” economy.

In short, at the heart of the debates about the effects of globalization and the service economy on the welfare state is the notion of employment insecurity. It is considered a key mechanism through which cross-border movements of capital, goods and services and employment shifts from the manufacturing to the tertiary sector affect social policy. However, empirical research on such a causal linkage has been markedly lacking. In many cases, employment insecurity has been simply assumed to be the causal mechanism at work behind the observed relationship between some measures of economic globalization or deindustrialization and governments’ commitment to social protection.

This dissertation brings the hidden causal mechanism to the fore by using *employment protection* as both an explanatory and a dependent variable. Employment protection refers to regulatory frameworks that govern hiring and firing, including labor legislation, court interpretations of legislative and contractual provisions and collective bargaining agreements (OECD, 1999: 50), and represents a policy response to economic insecurity. Since it has a direct bearing on employment insecurity, we should be able to observe from employment protection institutions the effects of globalization and deindustrialization. Moreover, if employment insecurity is an important force behind the growth of the welfare state, as the extant literature has

often suggested, we should also observe that change in employment protection consequently leads to social policy change.

The aim of this dissertation project is, therefore, two-fold: first, to show how globalization and the service economy affect employment protection and second, to demonstrate how employment protection influences institutions of social protection across countries. I show that employment protection is both a political response to external and internal economic changes and a driving force for social policy change. Moreover, it finds that the causal processes centering on employment protection are different across nations, depending on the relative abundance of skilled labor and the pre-existing institutions of social protection in each country. I use two extensive cross-national time-series datasets of employment protection in the OECD and Latin American nations ,along with qualitative evidence drawn from the case study of South Korea.

The remainder of this introductory chapter is organized as follows. In the first section, I provide some background on employment protection and discuss its relationship with employment insecurity. In the second section, I briefly review the recent attention to employment insecurity in the literature on globalization and the welfare state, and situate employment protection within ongoing debates. In the third section, I discuss the empirical strategy of this dissertation project. And in the last section, I provide an overview of the remaining chapters.

EMPLOYMENT PROTECTION

There is a great divergence of employment protection around the world. Countries at varying levels of economic as well as political development have instituted employment protection systems. Employment protection usually comes in the form of restrictions on employers' ability to lay off their employees. In countries such as the United States with a system of "employment-at-will", firms rarely face financial or procedural hurdles in firing workers as long as it is non-discriminatory (Freeman, 2007). Anglo-American countries typically adopt a liberal system of labor regulation. Southern European countries tend to have strong regulatory protection while Scandinavian nations have relatively moderate levels of protection— weaker than protections in Latin Europe, but stronger than in Anglo-Saxon nations.

Most of the current regulations emerged in the postwar period, particularly after the 1973 oil shock although some institutional foundations can be traced back to the prewar period (OECD, 1999; Pontusson, 2005a). It is particularly revealing that employment protection was strengthened in the 1970s, a time of rising unemployment which marked the end of the full employment era. Another set of regulations regarding so-called "atypical" jobs were introduced by advanced industrial democracies in the 1980s, and many other countries followed suit. As will be discussed in Chapter 2, the two types of employment protection—protection of regular workers with an indefinite employment contract and protection of atypical employment—have quite different logics and political implications.

Employment protection is not exclusive to developed democracies. Indeed, many middle and low income countries have a long history of statutory job protection, and the level of protection for some of them is conspicuously high. For example, Rama (2000) notes that countries in West Africa have "some of the heaviest labor market regulations in the world applied to some of its tiniest formal sectors" (p.3). India is notorious for its restrictive job

security provisions (Lindauer, 1999). Latin American countries have also adopted some of the earliest and most protective labor codes, which do not seem to have lost much of their protectiveness despite years of radical market reforms (Carnes, 2008; Cook, 2007; Heckman & Pagés, 2004). Heckman and Pagés suggest that the reason why Latin American governments adopted such protective labor codes so early is because they are a relatively easy, low-cost way of pleasing workers, compared with social insurance that would require much higher levels of administrative and institutional capabilities:

“Labor regulations were one way of distributing the rents from protection among covered workers and employers. Regulations are a low-cost way (from the point of government fiscal authorities) of providing social insurance to protect workers. The weak fiscal systems in place in the region together with the low level of income, and a tradition of tax evasion, corruption, and noncompliance made the social insurance schemes used in more developed countries prohibitively costly.” (Heckman & Pagés *ibid.*: 7)

This explanation can be easily extended to other low-income countries with strong employment protection. Typically, labor regulations in these countries apply to only a small segment of privileged formal sector that affords workers other regulatory protections and welfare benefits. In many cases, these were the key constituencies that the ruling elites needed to court in the early stages of economic development or state-building (Wibbels & Ahlquist, 2011).

Overall, cross-national variations in employment protection regimes stand out both in terms of the degree of variance across countries and their relative persistence over time within countries. A liberal system rarely moves toward tightening of rules in favor of workers. Conversely, even though protective regimes have come under much stronger pressure, reforming stringent labor codes has repeatedly been proven difficult and costly.

The stability of “varieties of employment protection regimes” is not surprising when we consider the main beneficiaries of such protection. In the developing world, as pointed out, it is a small but relatively powerful, privileged segment of workers in the formal, urban sector who have a vested interest in protective rules and who would register strong opposition to changing them. In advanced industrial economies, employment protection is also geared toward skilled, regular workers who are likely to benefit from it, rather than unskilled, marginalized workers who tend to change jobs more frequently and thus are less likely to garner immediate benefits from employment protection. Both in developed and developing nations, therefore, skilled and regular workers are potentially strong opponents of any reductions in the strength of employment protection.

In spite of the high political costs of labor reform, changes did occur in a significant number of countries and in many other countries pressures for change have become increased in recent decades. For instance, the OECD officially recommended its member countries to undertake legislative change to make layoffs easy in the 1990s (OECD, 1994). Latin America underwent several rounds of liberalizing labor regulations and then restoring them, as Murillo (2005) has called them “deregulatory” and “regulatory” respectively. This leads to interesting questions. Where does the increasing pressure for change come from and what spurs governments to initiate reforms of employment protection? And why do reform efforts proceed in different ways, with varying degrees of success? I provide brief answers to these questions in the next section, where I situate this study of employment protection within ongoing debates of globalization, deindustrialization and the welfare state.

EMPLOYMENT INSECURITY: CAUSES AND CONSEQUENCES

In this dissertation, I examine two important sources of pressure for changing employment protection—international trade and the growth of the service industry. To explore their relationships with employment protection, I focus on the impact of each of these forces on the main beneficiary of employment protection: skilled, regular workers in the formal sector.²

Globalization and deindustrialization have been identified as major sources of worker insecurity and consequently as causes of social policy change. As will be discussed in detail in Chapter 2, a great deal of research has shown the association between these external and internal economic forces and social policy change, but few studies have examined how the two factors actually affect employment insecurity. A small number of existing studies that do look into the linkage tend to focus on personal perception, subjective insecurity or individual voting behavior. These studies have provided some direct evidence that the open economy affects workers individually. However, given that domestic institutions such as labor market regulations play an important role in cushioning economic vicissitudes, whether of external or internal origins, we need to put individual level evidence into a broader context.

Workers experience a markedly different degree of employment insecurity, depending on both individual level attributes such as skill and educational attainment and macro level factors such as a country's labor market institutions and its economic position in the world market. In this regard, employment protection is one of the most relevant and important institutions where we can observe the effects of globalization and tertiarization on employment insecurity. Since it directly concerns job security, any substantial pressures originating from economic and structural

² These three categories tend to correlate with each other. Skilled workers are likely to be employed on regular, permanent employment contracts in the formal sector. Unskilled workers are at a higher risk of being hired under atypical work arrangements and in the informal sector. The distinction between formality and informality is based on whether workers are subject to regulations and protection of labor-related legislation.

changes must affect this particular type of labor market institution. In other words, we should be able to observe their impact on policy responses most immediately relevant to job insecurity beyond just perceptual, subjective insecurity at the individual level.

The ultimate reason why political scientists pay attention to employment insecurity is that it could lead to greater societal demand for government-provided protection. If we focus on change in employment protection policy, we are able to capture how the employment insecurity of a particularly important group of workers influences social policy. The main beneficiaries of employment protection—skilled workers in the formal sector—are also a key group underwriting the welfare state in many countries. In less developed economies, where the welfare state tends to be underdeveloped, social insurance and other types of welfare benefits tend to be limited to a small number of privileged workers such as public employees or skilled workers in the formal economy in urban areas. The lessening of employment protection could threaten not only their job security but also their entitlements to welfare benefits, which are often contingent on having stable employment in the formal sector. Consequently, such privileged workers might become an important social force that mobilizes to transform institutions of social protection in such way that would better suit more insecure labor markets.

For the mature welfare states in advanced industrial economies, this group of workers is much larger in size, and constitutes the foundation of the welfare state. They could play an equally decisive role in shaping the course of social policy change, but in a different direction. Since many of major welfare programs are financed through payroll tax contributions by employees, the growing incidence of unstable employment and atypical work arrangements may erode the financial stability and sustainability of the welfare state. In particular, where

contributory or occupational social insurance is a dominant mode of social protection as in Christian democratic countries, a downward change in employment protection may have a severe financial impact and consequently contribute to reductions in welfare programs.³ Rather than triggering social policy innovation that departs from a narrow scope of welfare provisions, therefore, labor market changes in developed nations might occasion the decline of the welfare state.

This dissertation is not the first attempt to place skilled workers at the center of analysis. Many scholars have emphasized the preference and political role of skilled workers in the development of the welfare state. There are two theoretical approaches that are particularly relevant. First, the skill-based approach to social policy provides useful insights to understand why workers have different preferences in favor of or against social policy and why countries have developed a distinctive set of social protection institutions, or “welfare production regimes” (Estévez-Abe, Iversen, & Soskice, 2001). First, this approach suggests that workers with specialized skills tend to have strong preference for social protection. Second, it follows that each country’s comparative advantage based on a unique mix of general, industry-specific and firm-specific skills determines the shape of social protection. While this dissertation draws upon the theoretical insights of this skill-based theory, it further takes note of how pre-existing institutions of social protection translate skilled labor’s general preference for social protection into actual social policy change. In some cases, skilled workers might play a key role in the expansion of social protection, but in other cases, they might be content with a private type of

³ For discussion of labor market challenges the Christian democratic welfare states in continental Europe face due to high payroll taxes, see Scharpf (1997), Esping-Anderson (1996) and Esping-Anderson and Kolberg (1992).

social protection. Change in employment protection could be instrumental in shifting their interest from the latter to the former.

The second useful theoretical approach is a skill-driven explanation of international trade and its differential effects on labor markets in the global North and South.⁴ According to this view, globalization is likely to benefit skilled workers in wealthy trading nations in the northern hemisphere, but hurt their counterparts in less affluent societies in the South . Differentiating workers by skill levels and taking into account cross-national variation of skill distribution has generated interesting theoretical debates and empirical research. For example, the rising inequality observed across advanced industrial economies in recent decades is attributed to the negative effects on low-skilled workers of increased trade with low-labor cost economies. I propose a theoretical framework that analyzes the impact of globalization and the service economy on employment protection and the relationship between employment protection and social policy, but which gives a central role to skilled workers. As the international trade theory predicts, the open economy affects the fortunes of skilled labor differently in high income and low income countries and as a consequence will lead to more or less employment protection regime. I also show that the growth of the service industry has different effects on the employment protection system for developed and developing economies, by taking note of differences between them in the structural shift of employment patterns. An emerging literature has started exploring the implications of fast growing services for the labor market and the welfare state. Going beyond its focus on tertiarization in the Western world, this study pays attention to the patterns of inter-industry labor movements of labor that takes place in countries with widely varying levels of economic development and argues that the concurrent growth of

⁴ For the debate on the distributive effects in labor markets of North-South trade, see Goldberg and Pavcnik (2007), Slaughter (1999), Davis (1996), Bhagwati (1995), Freeman (1995), Wood (1991).

services and manufacturing in less-developed nations will have different labor market implications.

EMPIRICAL STRATEGY

In order to substantiate the theoretical arguments outlined above, this dissertation relies on mixed methods. Quantitative and qualitative analyses complement each other, enhancing the strength of my arguments.

For cross-national time-series statistical analysis, I draw upon two datasets of employment protection for the OECD and Latin America spanning the last three decades. These two datasets not only provide the most comprehensive and systematic information available to date, but also are highly reliable. It is challenging to quantify heterogeneous, multifaceted national labor codes and institutional features into a one dimensional, cross-nationally comparable index; indeed the difficulty of compiling and constructing cross-national data has typically precluded statistical analysis of employment protection. But each of the two datasets represents a recent breakthrough, enabling me to test my hypotheses about the determinants and consequences of employment protection across the world. In particular, the information on Latin America's employment protection systems is highly valuable since it broadens the scope of analysis and allows for testing the different causal processes for high and low income nations. One dataset covers only the OECD countries while the other includes both the OECD and Latin America. The overlapping data on the OECD are highly correlated, which suggests that they are reliable.

First, I conduct econometric analysis of the determinants of employment protection and find the expected effects of globalization and tertiarization. Then I proceed to test the relationship between employment protection and the welfare state. In both sets of statistical examinations, I find strong evidence for a North-South divide. The quantitative analysis provides the first systematic evidence for the centrality of employment protection in transmitting the effects of the global economy onto workers and mediating between the structural transformation of the domestic economy and job insecurity. Furthermore, this dissertation presents the first quantitative evidence for the importance of employment protection as a determinant of social spending levels.

After presenting initial support for my arguments from statistical tests, I use qualitative evidence to better understand the complex causal relationships. Specifically, I employ the case study method to analyze the experience of South Korea. Given that the theoretical framework of this dissertation assumes antipodal causal processes between skilled- labor- abundant economies and developing economies that are less- skilled- labor- rich. Korea is a uniquely apt case that can illustrate how the variables of interest work to produce heterogeneous outcomes in different contexts. Korea was initially a low income country with its labor force largely consisting of unskilled labor, but made an astounding economic leap in a short period of time. The unequivocal transition of its economy effectively increases the number of “within-case” observations, and the method of “process-tracing” is used to demonstrate how the causal relationship between variables shifts as if we observe two cases drawn from two separate samples. In addition, Korea makes a superb case since it can address concerns about Latin American “exceptionalism”. Because the statistical analysis hinges on data for Latin American countries, there is a potential risk that some unobserved idiosyncrasies specific to the region may

have driven the results. If the case study of Korea can convincingly demonstrate the proposed causal processes, it will enhance the validity of my arguments.

OVERVIEW OF THE CHAPTERS

This dissertation aims at enhancing our understanding of how employment protection policies mediate the link between globalization and deindustrialization and social policy. To that purpose, it is organized into four substantive chapters. The first two chapters (Chapters 2 and 3) are cross-national studies based on quantitative analysis of employment protection across the OECD and Latin American countries spanning from 1980 to 2008. Chapter 2 examines the determinants of employment protection, especially globalization and the service sector employment. Chapter 3 investigates the relationship between employment protection and the welfare state. The next two chapters (Chapters 4 and 5) further examine the theoretical frameworks laid out in the cross-national studies using the case of Korea. Chapter 4 corresponds to Chapter 2 and discusses how globalization and deindustrialization have influenced workers' employment insecurity, and analyzes the politics of employment protection in Korea. Chapter 5, echoing the theme of Chapter 3, investigates the impact of employment insecurity on social policy development in Korea.

To preview each chapter, first, Chapter 2 surveys the extant literature on globalization and deindustrialization that has assigned particular importance to employment insecurity, and identifies its shortcomings in providing empirical evidence for the postulated linkage. It also surveys previous studies that have specifically examined employment protection laws. Finding a dearth of theoretical and empirical work that provides a systematic explanation of employment

protection across the countries, Chapter 2 attempts to build a theoretical framework that incorporates the effects of trade and deindustrialization and makes predictions about employment protection policy. To test my hypotheses, I introduce employment protection data and perform a series of statistical tests. I find that both trade and the size of service sector employment have significant effects on the level of employment protection both in the OECD and Latin America. Specifically, trade contributes to a strengthening of employment protection in the OECD but has the opposite effect in Latin America. Similarly, the service sector is found to have opposing influences on employment protection in the two samples of nations. These results conform to my theory that pays attention to different processes of market integration and the transition to the service economy experienced by countries with differing levels of economic development.

Chapter 3 turns to the relationship between employment protection and the welfare state, while taking into account the effects of globalization and deindustrialization, which the literature has identified as the most important determinants of social policy change. The chapter shows that when employment protection is taken into account, their effects are substantially diminished. After reviewing the literature that speaks to social policy change in relation to globalization and deindustrialization, I propose an alternative explanation that emphasizes the role of employment protection. I then present quantitative evidence from a regression analysis of social expenditures. Across the world, I find consistently strong effects of employment protection levels on government expenditures spent on social protection. As in Chapter 2, there is a systematic divide between the OECD and Latin America in the way social spending responds to change in employment protection. In order to further investigate the divide, the next chapter looks deep into Korea's experience during the last three decades.

Chapter 4 examines how economic relationships with the world and internal transformations of the economic structure have shaped the political contestation over employment protection in Korea. First, it provides a methodological justification of why an in-depth case study is appropriate for the purpose of this research project and why Korea was chosen as a test case. In discussing the main explanatory variables, it goes beyond inevitably oversimplified operationalization of statistical analysis and instead pays close attention to important changes that took place over an extended time period. Specifically, it focuses on change in the sectoral composition and skill intensity of exports to examine the effects of globalization, and on change in the industrial structure, productivity gaps between different service industries and patterns of inter-industry labor movement in order to investigate the effects of the service economy. Based on this discussion, I derive several testable implications and examine their validity by tracing out the political process of employment protection policy.

Following the general argument in Chapter 3, Chapter 5 examines if and how employment insecurity was a critical factor in shaping the institutions of social protection in Korea. Rather than using the “level of aggregated social expenditures”, it describes the overall shape of the Korean welfare state and the institutional designs of various social policy programs. First, the chapter sketches out the development of the welfare state and the limitations of existing explanations. It then proposes an alternative approach that emphasizes the role of regular, skilled workers and examines the recent process of the welfare reform. It shows that major turns in social policy took place in conjunction with the political process of employment protection change.

Lastly, Chapter 6 concludes the dissertation. I discuss the implications of my findings and the limitations and caveats of this study, and I suggest directions for future research.

CHAPTER TWO

The Sources of Employment Insecurity:

Globalization, Deindustrialization and Employment Protection

Does international economic integration increase worker insecurity? One of the most consistent findings in political economy is the positive correlation between economic openness and social spending in industrial economies. To explain this relationship, scholars have highlighted the impact of globalization on worker insecurity. The conventional argument goes that workers who experience heightened insecurity tend to pressure their government into providing social protection.

This traditional explanation has been met with skepticism ever since Torben Iversen and Thomas Cusack (2000) suggested that exposure to the international economy is not the primary source of worker insecurity. They instead argue that the culprit for growing labor market risk is deindustrialization. Consequently, deindustrialization, not globalization, is the real cause of the expansion of the welfare state, at least in Western democracies. Their theoretical challenge has spurred political economists to more closely examine the presumed effects of globalization on labor markets and to seek robust empirical evidence for the “hidden link” that supposedly connects globalization with the welfare state. While this new effort has shown that workers indeed feel more insecure in the open economy, it is still unclear how such subjective insecurity at the individual level translates into actual policy change. Despite recent scholarly efforts to establish the direct effects of globalization on worker insecurity, therefore, the debate on globalization versus deindustrialization has yet to be settled.

This chapter attempts to weigh in on this debate, examining the impacts of globalization and the growth of the service industry on employment insecurity. I part ways with both the “hidden-linkage” and the “subjective insecurity” approaches and turn to a politically salient policy that has direct bearing on worker insecurity—employment protection legislation.

Employment protection legislation is a political outcome, in which different groups of workers who are affected differently by globalization and deindustrialization have diverging interests. The fact that employment protection laws vary across countries and time enables us to examine the effects of globalization and deindustrialization on worker insecurity in a large-N setting. In recent years, employment protection laws have emerged as a contentious political issue in a number of countries, both developed and developing. Moreover, in many cases the controversy over employment protection has been accompanied by a debate about social policy. In Europe, proposals to increase labor market flexibility have been coupled with a growing emphasis on active labor market policy. In Latin America, labor reform was packaged with social policy reform. Given that the issues of employment protection seem tightly connected to changes in the welfare state in recent years, it is puzzling that these simultaneous developments have not been examined more closely. The purpose of this dissertation is to close this gap in the literature.

As a first step, this chapter examines the role of globalization and deindustrialization in shaping employment protection regimes. Drawing on the literature in international political economy and comparative political economy, I develop a theory of political coalitions over employment protection that puts skilled workers at the center of analysis. The skill profile of a country’s labor force—whether a country has an abundance of skilled labor relative to unskilled labor—determines how economic openness and internal transformations in economic structure

affect skilled labor and, in turn, employment protection institutions. The primary goal of this chapter is to identify the causal paths through which globalization and deindustrialization affect labor market risks. The second goal is to outline and empirically test a political theory of employment protection. To test the theory, I use quantitative measures of employment protection for over 50 countries from the 1980s to the late 2000s.

To sum up the findings of this chapter, both globalization and deindustrialization do affect employment insecurity, but in ways that are more complex than existing studies have suggested. First, unlike the pessimistic view of previous research, the evidence suggests that the effects of trade can be positive on employment protection. It seems that workers in developed and developing countries, however, experience different levels of job insecurity as a result of increased trade and expanding service sectors. Moreover, unskilled laborers, those who work part-time or temporarily, or who are dispatched from a work agency—so-called labor market outsiders—do not necessarily have the same experience as insiders in the changing economic environment.

This chapter proceeds as follows. In the first section, I review the literature on globalization and deindustrialization that has assigned a particular importance to employment insecurity, identifying its shortcomings in providing adequate empirical evidence for the postulated linkage to employment insecurity. To analyze the politics of employment insecurity, in the second section, I discuss the employment protection laws that this study focuses on and discuss previous research on employment protection. I lay out my theoretical framework in the third section, connecting international trade and the service employment to employment protection policy, and in the fourth section, I introduce datasets which cover a broad set of

developed and developing countries and then present the results of statistical analysis. I conclude by discussing the implications of this chapter.

THE LITERATURE: GLOBALIZATION, DEINDUSTRIALIZATION AND EMPLOYMENT INSECURITY

The extensive literature on the effects of globalization on the welfare state tends to highlight labor market risks as a key causal mechanism connecting a greater role of international markets to change in domestic policy. In comparison, research that examines the linkage itself is relatively scarce. This section discusses that small number of studies that pertain to employment insecurity.

Rodrik (1997) developed one of the most systematic explanations of the effects of globalization on labor markets in the developed world. There are two channels, he argues, through which globalization makes workers more insecure in the labor market. First, trade with developing countries puts unskilled workers out of job since domestic production of low-skilled, labor intensive goods are now replaced by imports. Second, globalization generates instability in earnings and employment because market integration renders workers more interchangeable. This substitution effect, in principle, applies to all workers regardless of skill level, but less-educated, less-skilled workers are more vulnerable because, by definition, they are easier to replace. Workers experiencing difficulties in finding a stable job and falling real wages will demand compensation and social protection (Burgoon, 2001).

Rodrik does not perform a direct test of these scenarios, but instead points to the relationship between external risks and “aggregate” income and consumption risks as evidence.

He finds that external risks, calculated as the product of the size of trade and the volatility of terms of trade, are positively correlated with the volatility of aggregate measures of income and consumption. However, this is not an exact test for his theoretical arguments since he has used *aggregate* income and consumption risks, rather than risks for the disadvantaged.⁵ Note that in his model less-educated and less-skilled workers are the losers of globalization and are vulnerable to North-North as well as North-South trade. Although he acknowledges that higher levels of aggregate risks might mean even higher insecurity for this group, this has not yet been tested empirically.

A more direct approach to the consequences of globalization for the labor market has been taken by Kenneth Scheve and Matthew Slaughter (2004), whose work aims at ascertaining whether individual workers indeed feel insecure in the open economy. Their primary finding is that workers employed in industries exposed to foreign direct investment (FDI) express greater concerns about job security. Their interpretation of this finding is similar to Rodrik's: FDI makes the demand for labor more elastic through substitution. In response to higher domestic wages or other factors, multinational firms can move some stages of production abroad, effectively placing workers in competition with foreign workers for employment opportunities.

In contrast with the view that trade and FDI negatively impact the labor market, there is new evidence that the two aspects of globalization may work differently (Rama, 2001). In particular, a few studies have highlighted a positive role of FDI on workers. Focusing on workers' rights, Mosley (2011) and Mosley and Uno (2007) argue that while trade competition tends to generate "race to the bottom" pressures on collective labor rights, FDI inflows might be

⁵ He concedes this point by saying "Note further that these aggregate relationships say nothing about the distribution of risk within the economy. Presumably, this kind of risk is borne disproportionately by groups with low international mobility. Once its incidence is taken into account, therefore, the problem of external risk is likely to loom larger" (Rodrik, *ibid.*: 57).

positively related to improvements in worker rights. Pinto (2004) also argues from the international trade perspective that workers in general are likely to benefit from FDI, and explains why some Leftist governments have been receptive, rather than hostile, to foreign capital. Pandya (2010), paying attention to the role of skill level, argues that skilled laborers are more likely to benefit from FDI.

FDI could have a beneficial impact on the labor market in cases where multinational corporations care about the quality of labor rather than its cost. For example, when firms make investments in order to access specific consumer markets—which recent studies have identified as one of major motivations for the contemporary FDI—they often have an interest in securing skilled workers and would consequently be willing to pay higher wages and provide generous benefits to reduce labor turnover (Caves, 2007; Hanson, 2005; Jensen, 2006; Jensen & Rosas, 2007; Kucera, 2002; Lipsey, 2001, 2002; Markusen, 1995; Moran, 1998, 2002; Moran, Graham, & Blomström, 2005). However, it seems less plausible that this positive effect would percolate to the entire labor market to such an extent that it would change the overall level of employment security in a host country.

The majority of studies in the globalization literature followed Rodrik's original formulation of externally induced economic insecurity until Iversen and Cusack (2000) questioned the assumption that growing economic insecurity is the result of globalization. Iversen and Cusack made a forceful case that deindustrialization, not globalization, is responsible for labor market insecurity and, subsequently, for the growth of the welfare state. Increasing productivity in the manufacturing industry, changing consumption patterns and saturated demands for industrial products have dramatically transformed the employment

structure. Employment in agriculture and manufacturing has declined on a great scale over several decades; new jobs are now primarily generated in the service sector and require skills that workers in traditional sectors are not equipped with.

This structural transformation places the government in the “trilemma” of the service economy, whereby the government has to sacrifice at least one of the following three goals: budgetary soundness, income equality, and employment growth (Iversen & Wren, 1998). Employment growth in the private services sector necessarily accompanies wage inequality. Alternatively, employment growth can be achieved in the public services sector, but this would put budgetary pressures on the government. A third option is to pursue budgetary soundness and wage equality, which would produce a stagnant job market with perpetually high levels of unemployment. What this trilemma ultimately means is that the structural transformation of the domestic economy, not the international economy, has been the chief cause of adverse economic environments and diverging governmental responses.

A particularly daunting challenge that the transition to the service economy poses to workers is the requirement of new skills. Since skills are not easily transferrable from manufacturing to services, workers would have a hard time either finding a job that suits their skills or adjusting to a job that requires an entirely different skill set. To sum up the argument proposed by Iversen and his colleagues, the two most important consequences of deindustrialization for workers are massive scale job loss in manufacturing and the difficulty of adjusting to new jobs in services.

While these challenges must have brought substantial insecurity to workers already employed in manufacturing, it is important to note that these are mostly transient effects which fade out when workers eventually exit the labor market. In fact, Iversen and Cusack identify

about thirty years starting from the 1960s as the period in which the great transformation into the post-industrial society took place, shocking the labor markets of wealthy nations. According to their understanding of labor market risks induced by deindustrialization, there is no obvious source of insecurity inherent to the post-industrial labor market once the transitional phase is passed. This interpretation, however, underestimates the challenging characteristics of post-industrial employment which are distinguished from traditional manufacturing labor markets.

It is well known that the lion's share of tertiary employment comes from low-skilled services. Service sectors are, of course, highly heterogeneous internally, from sector to sector in terms of productivity and from job to job in terms of skill requirements and pay levels. Services can be classified into four broad sectors: business, distributive, personal, and social services (Esping-Andersen, 1999; Singelmann, 1978). Business services such as finance, insurance, and real estate require a large number of technical, professional, and managerial jobs and show high productivity growth rates. Distributive services include wholesale, retail, transportation, and communications. Personal services are characteristically labor intensive and low-skilled. Social services such as health and education, in contrast, are skill intensive in nature due to the large share of healthcare professionals and teachers, but the growing demand for personal care and support services, are expected to reduce skill bias within the social services industry. Internal sectoral compositions among these highly heterogeneous services vary from country to country, and we can expect this variation to impact labor markets in diverse ways. But the macro effect of the aggregate service expansion is a significant growth of "lousy" jobs and independent employment, and income polarization.⁶ A large portion of jobs generated in expanding services

⁶ A number of studies agree with this description of the labor market development in recent decades in advanced industrial economies although not necessarily agreeing on its cause. See, DiPrete et al.(2006), Freemand and Katz (1994), Fortin et al. (1997), Golden and Wallerstein (2006), Kenworthy and Pontusson (2005), Klausen (1999), Peters (2008) and Rueda (2008).

is low-skilled, low-paying or temporary (King & Rueda, 2008; Pontusson, 2005b). Employment relationships become shorter and more volatile, and they can often be terminated without enough notice for workers to locate employment elsewhere to maintain a steady income. Employers invest less in training workers and in fostering stable and long-term relationships with employees, and they want greater flexibility in hiring and firing.

This description of deindustrialization is closer to the revisionist view of deindustrialization that is emerging in the welfare literature. Carnes and Mares (2010) identify, as the decisive change caused by deindustrialization, the shift from stable, contracted employment to more diffuse, independent employment relationships in highly heterogeneous services. In addition, they offer a different interpretation of the consequence of this labor market change for the welfare state. Unlike Iversen and Cusack, who attribute the climbing social expenditures to the mass dislocations of the industrial workforce, they argue that deindustrialization is likely to generate a strong societal impulse for universalistic, non-contributory social policies, which are not necessarily correlated with higher social spending.

While this revisionist approach has animated the debate over the effect of deindustrialization on the welfare state in a compelling and interesting way, what is still missing is a direct test for the causal relationship between deindustrialization and labor market risks. Does deindustrialization indeed cause a shift from stable, contracted employment relationships to unstable, un-contracted ones? There have been no attempts to address this pressing question.

To sum up, the literature has identified several plausible causal paths through which globalization and deindustrialization could affect labor market insecurity. The two camps, while emphasizing one path over the other, both highlight the negative consequences of globalization and deindustrialization; however, there is no direct test for the theoretical claims about worker

insecurity Although there are valuable insights to be gleaned from existing theories on how globalization and deindustrialization might generate labor market risks and lead to distributional conflicts between domestic groups over compensation, many insights remain suggestive. For example, Rodrik's theory, emphasizing trade's devastating effects on unskilled labor, only hints at a possibility for political conflicts over the distribution of risks.

In the following sections, I develop a political theory of labor market insecurity. Going beyond the current literature that has treated globalization and deindustrialization in isolation as “the” real source of growing insecurity, I propose that the two forces affect labor market insecurity simultaneously but in different ways. My theory also specifies the preference and influence of political coalitions. The central idea of my analytical framework is that exogenous changes in employment security—driven by economic and technological forces—affect the political resources, preferences, and responses of different groups, triggering a distributional conflict over employment protection and social policy. Before laying out the theoretical framework, the next section introduces the concept of “employment protection” in relation to “employment insecurity” and discusses previous studies that specifically speak to employment protection.

EMPLOYMENT PROTECTION AS A DETERMINANT OF INSECURITY

Background

This section discusses the institutions of employment protection, which refer to the regulatory framework governing hiring and firing and include labor legislation, court interpretations of legislative and contractual provisions and collective bargaining agreements.

The starting point is to make a distinction between exogenous shocks to the labor market and endogenously determined levels of employment insecurity. Most studies, as reviewed in the preceding section, focus on exogenous sources of employment insecurity. Employment protection is determined through endogenous political responses not only to exogenous factors such as globalization and the expansion of service sectors but also to other institutional and political factors.

Economic and structural forces shape the preferences of different political groups about whether to support or oppose various employment protection policies, and affect their organizational capacity. The political process determines the final shape of government policies that influence workers' job security. The government can intervene in the labor market through legislation that regulates both hiring and firing. Examples of firing regulations include procedural inconveniences of dismissal, requiring that employers provide employees with advanced notice of their dismissal, severance pay provisions and penalties for unfair dismissal. By making it difficult for employers to dismiss workers, such policies provide workers with employment protection.

Statutory regulations on hiring aim at providing a different type of protection to a different group of workers. For instance, restrictions on the use of fixed-term contracts and temporary work agencies are designed to protect non-standard employees.⁷ By forbidding certain types of jobs, it fulfills its protective purpose. Historically, legislation on atypical employment was introduced to counteract the widespread use of non-standard work arrangements and to

⁷ Non-standard (atypical or irregular) employment refers to “employment relationships not conforming to the standard or “typical” model of full-time, regular, open-ended employment with a single employer over a long time span.” (The European industrial relations dictionary, 2009)

protect low-skilled, marginalized workers (OECD, 1999). More recently, employment protection has become one of the most controversial issues around the world.

Critics argue that employment protection policies are responsible for the intractable problems that plague European labor markets: long-term unemployment, high unemployment rates among youths, and the rigidity and dualism of the labor markets (Baccaro & Rei, 2007; Esping-Anderson & Regini, 2000; Freeman, 2007). In particular, they underscore its distributive consequences for different groups of labor market participants; workers hired on regular contracts may enjoy a high degree of job security at the expense of their less-educated, less-skilled and unemployed counterparts. When employers view firing costs as too prohibitive, a divide between labor market “insiders” and “outsiders” can take shape through two channels: 1) by inhibiting new hiring (as a result, there will be fewer job opportunities for outsiders), and 2) by making employers seek atypical types of workers that are not subject to such high firing costs. The distributional effect has some empirical support, as particular groups including youths and women are found to be disproportionately vulnerable to strong employment protection.

This debate has had an unusual impact on policy making. Following the recommendations of the famous *OECD Jobs Study* (1994), a number of countries initiated reforms to relax employment protection regulations. Mixed results, however, caused policy recommendations to evolve toward a more balanced view—one that recognizes the importance of protecting workers against labor market risks (OECD, 2004: p.62). For example, the European Commission has recommended that EU members “review and, where appropriate, reform overly restrictive elements of employment legislation. The scholarly and policy debate over employment protection has inspired political scientists to seek political explanations for the emergence and evolution of labor regulation.

Political Explanations for Employment Protection

Employment protection has begun to receive attention only recently in the field of political science. Two observed trends, in particular, triggered scholarly interests in employment protection. First, cross-national variation in labor laws has persisted despite the growing impetus for liberalization around the world, and seemed to co-vary with the typology of welfare capitalist economies (Bonoli, 2003). Paying attention to this cross-national pattern of employment protection institutions, scholars in the varieties of capitalism (VoC) tradition explain strong employment protection as a sub-component of “coordinated market economies,” where firm-specific skills are valued as opposed to general skills or industry-specific skills. According to this skills-based perspective, employment protection has an insurance function for workers who would otherwise make costly and risky investments in acquiring firm-specific skills. Since specific skills are not easily transferrable, job loss is particularly detrimental to workers whose skill profile is skewed toward firm-specific skills (Estévez-Abe et al., 2001). In contrast, liberal economies geared toward the intensive use of general skills do not require such an institutional mechanism. Unfortunately, this institutionalist approach is not useful in explaining recent changes in employment regulation and in helping us understand the “political” dynamics of those changes.⁸

Rueda (2005, 2006, 2007) proposed one of the first “political” theories of employment protection. Starting from the assumption that labor market insiders and outsiders have different preferences over employment protection, he argued that social democratic parties promote pro-insider policies, such as strong employment protection, to the detriment of outsiders. Although

⁸ This is a theoretical weakness of the Varieties of Capitalism approach in general. See Hall and Gingerich (2009), Hall and Thelen (2009) and Hall (2007) for VoC theorists’ response to this critique.

his theory made a significant contribution to our understanding of the politics of employment protection in advanced industrial economies, his empirical evidence was rather weak and limited.⁹

There is a separate literature that examines employment regulation in Latin America. The region underwent a period of extensive market reforms in the 1980s and 1990s following the debt crisis, and several countries liberalized their highly protective labor market systems, with varying results. To explain this variation, many specialists on Latin America have looked to party–union ties, the power of labor movements, divisions among labor unions, the influence of international organizations and the political legacies of earlier regimes (Cook, 2007, 2008; Etchemendy, 2004b; Murillo, 2005; Murillo & Schrank, 2005). Most of these studies either focus on specific cases of labor reform or assess regulatory changes, based on the author’s own typology of employment protection regimes. Consequently, it is difficult to make an objective comparison between countries and time periods.

Carnes (2008) took a more systematic approach by constructing a cross-national dataset that measures the level of employment protection. On the theoretical front, this study also goes beyond stressing the usual suspects identified by the literature on Latin America and incorporates the insights of skill-based theories.

In spite of this progress in research on the recent policy changes in Latin America, more fundamental questions remain unanswered: why did countries in Latin America adopt some of the most protective labor regulation systems in the first place, and why did countries in other regions not attempt such drastic changes? As noted, research on employment protection has

⁹ The partisan variable does not perform strongly in most regressions. Also, note that the effect of economic openness is insignificant in his statistical analysis.

developed into two separate literatures, each exclusively concentrating on the OECD and Latin American countries. Cross-national studies overcoming this regional boundary are indeed rare.

A notable exception is the investigation of labor market regulations in 85 countries by Botero et al. (2004). The authors argue that legal origins—that is, legal systems inherited from colonizers—explain a country’s approach to labor regulation better than any other variable, even government partisanship. Specifically, countries with French legal origins tend to have the most protective labor laws, and countries with common law have the least protective labor laws, with German and Scandinavian systems falling in the middle. But an obvious weakness of this argument is that it cannot explain changes in employment protection laws over time.¹⁰ Colonizers may have left their distinctive stamp on labor law systems during the state formation period, but we definitely need different theoretical frameworks to explain why some countries have departed from their inherited system while others have had a harder time doing so.

Another group of scholars turn to more recent experiences of the developing world to explain the emergence of employment protection policies. They tend to find that the effect of democracy is positive and significant with regard to collective labor rights such as freedom of association, the right to bargain collectively and the right to strike (Caraway, 2009; Mosley, 2000, 2008, 2011; Mosley & Uno, 2007). On the other hand, employment protection has not necessarily improved with democratization (Caraway, *ibid.*).

There are two explanations for why democratization has not fostered job protection legislation. First, the institutional legacy of authoritarianism might have a resounding negative effect on the level of employment protection (Caraway, 2004). Second, the transition to

¹⁰ The inability to account for temporal variation is not only theoretical, but also empirical, since their dataset is only cross-sectional and therefore dynamic aspects cannot be tested.

democracy in many developing countries coincided with market reforms (so-called “dual transitions”) and took place in the context of growing competitive pressures emanating from the global economy (Bermeo, 1994; Cook, 2008; Etchemendy, 2004a). The economic imperative inhibited the newly instituted democratic governments from strengthening individual worker protection in employment contracts. The extensive literature on market reform has investigated specific contexts of the “dual transitions” but it falls short of providing a systematic and compelling political theory that can account for patterns of both continuity and change beyond the domain of specific reform cases.

Many countries had already adopted very different labor market systems before the waves of democratization hit their shores. Consider countries in Latin America and East Asia. As noted above, many Latin American countries developed highly protective employment regulation systems quite early, whereas East Asian countries were known for their flexible labor markets (Haggard & Kaufman, 2008). A considerable difference between the two regions has persisted despite a series of radical political changes. Nonetheless, the degree of change in labor regulation within each region has been quite considerable and does not seem to be accounted for by regime type.

Finally, a more promising approach that departs from the dominant trend in the literature on developing nations is found in a recent study by Wibbels and Ahlquist (2011). They argue that developing countries institutionalized distinctive social policies including employment protection as part of broader development strategies, which were conditioned by structural economic constraints such as the relative abundance of labor, rural land inequality and the domestic market size. According to this theory, Latin America’s protective labor market regulations are a policy instrument of import-substituting strategies, which were the result of

scarce labor, high inequality and a large domestic market. Similar to the coalitional approach in the international political economy literature, underlying factor endowments of land, capital and labor shape patterns of political coalitions. Since owners of scarce factors benefit from protectionism, relatively scarce labor colluded with scarce domestic capital and pursued protectionist policies at the expense of land owners in Latin America. The other two structural factors—high rural inequality and large domestic markets—determined whether such autarkic policies could persist. In labor-abundant East Asian countries, in contrast, protectionist developmental strategies were not sustainable due to small domestic markets and a relatively equitable distribution of land ownership. Labor, therefore, could not implement policies such as strong employment protection which are incompatible with export-led development and were opposed by capitalists. Wibbels and Ahlquist's argument is empirically supported by initial patterns of social policy and employment protection. Although their study does not specifically deal with employment protection, it gives us valuable insights into the underlying political dynamics that govern labor regimes. It also makes a theoretical breakthrough in emerging research on the welfare state in the developing world by identifying causal linkages between political coalitions, development strategies and social policies.

To sum up, there is a dearth of theoretical and empirical work that specifically focuses on employment protection. Existing studies have emphasized as determinants of employment protection regulations international and domestic economic pressures, government partisanship, labor movements, party–union relationships and regime type. Each study proposes a partial explanation for specific cases of labor regulations, but none of them systematically examines the effects of economic openness and deindustrialization on employment protection. In fact, little

attention had been paid to employment protection, either as a dependent variable or as an independent variable.

The main assumption of this dissertation is that employment insecurity is the key variable that connects globalization and deindustrialization to social policies. Although it is acknowledged that employment protection has direct impacts on employment insecurity—the key concept in most of the welfare state literature—few attempts have been made to look into how the politics of employment protection affect social policy. In the following section, I outline a theoretical framework that puts employment protection at the center of empirical investigation.

SPECIFYING THE THEORETICAL MODEL

The Setting

To conceptualize the effects of globalization and deindustrialization on domestic labor markets, imagine a world in which there are two countries, one developed and one developing. Furthermore, the advanced industrial economy is highly endowed with skilled labor, whereas the less developed economy has a greater abundance of unskilled labor. I also assume that there are three sectors in each country: high-skill-intensive manufacturing, low-skill-intensive manufacturing and low-skill-intensive services. The two manufacturing sectors are tradable, but the service sector non-tradable. The assumption that services are low-skill-intensive is in line with the literature, which has shown that a low-skill bias is a definitive feature of the service economy in general.

Postponing analysis of how deindustrialization affects employment protection, I first examine the effect of globalization. To derive actors' preferences, I draw upon insights from

international trade theory. A standard result in international economics is that trade affects the returns to factors of production (Mundell, 1957; Stolper & Samuelson, 1941). Political scientists have developed political theories to explain the formation of trade policy coalitions and the patterns of trade policy based on this idea (Alt, Frieden, Gilligan, Rodrik, & Rogowski, 1996). Broadly speaking, they tend to take either of two contrasting approaches, depending on assumptions regarding factor specificity—i.e. how costly it is for factors of production such as capital and labor to move between sectors in response to trade-induced change in returns. If factor specificity is high, inter-industry movements are costly. If factor specificity is low, it is relatively easy to move factors between different uses and industries. One approach, based on the Heckscher-Ohlin model, assumes low-factor-specificity; in other words, the approach assumes that reallocating the resources needed for production—such as capital and labor—to another sector is not costly. Under such circumstances, trade benefits and strengthens owners of abundant factors while hurting owners of scarce factors within the domestic economy.¹¹ Since countries will have a comparative advantage in and therefore export the goods that use intensively their relatively abundant factors, the owners of abundant factors benefit from trade. If we apply this approach to our imagined world, trade between the two countries would benefit skilled labor and hurt unskilled labor in the rich country, and the result would be the opposite in the poor country.

Now let's consider how adding a political dimension might shed light on the formation of political coalitions over employment protection. Skilled labor generally possesses political

¹¹ The specific mechanism is as follows. If it is easy to move factors of production between sectors, factor returns are eventually equalized throughout the economy. Thus the fortunes of owners of a particular factor rise and fall together regardless of industry. We are likely to see political coalitions forming along class coalitions, rather than sector-based, cross-class ones. A famous application of the Heckscher-Ohlin theorem is Rogowski (1987a, 1987b, 1989). Recent studies attempt to relax the assumption of specific versus mobile factors and to theorize a model by assuming variable factor specificity (Hiscox, 2001, 2002a, 2002b)

advantages over unskilled labor in both countries. Their political strength derives from the fact that they are likely to have more bargaining power vis-à-vis employers due to their specialized skills. Workers with homogenous skills are easier to substitute for one another and thus do not enjoy such bargaining power. In some cases, such as in tight labor markets, employers and skilled workers will have overlapping interests because employers will tend to view securing and training workers as an investment (Swenson, 2002, 2004).

Skilled labor also tends to have an organizational advantage. It is easier for skilled workers to overcome the collective action problem due to their relatively small size. Even in the high-skill-intensive country, skilled workers are likely to be fewer in number than the unskilled. They are only “abundant” when compared to the other country. The desire to protect their “skill-premium” would lead them to develop institutional mechanisms to foster collaboration so as to negotiate with employers collectively. The recent literature from the VoC perspective has explicitly framed the economic rationale for various coordinating institutions as stemming from the need to protect workers’ investment in skill formation. Union organizations at the industrial level could grow out of such a need. In addition, there are other factors that promote collective action among skilled workers, such as an improved working environment or longer job tenure with the same employer.

On top of these intrinsic political advantages, it is important to remember that, as discussed above, in countries where skilled labor is scarce, a closed economy would provide skilled laborers with additional benefits. Thus, the combination of autarky and political advantages generated by skills would definitely favor skilled workers over unskilled workers in the poorer nation, granting them enough political power to influence government policies in their favor.

Then, what will happen under conditions of economic openness? As noted, opening up the domestic market to international trade will benefit skilled workers in the rich nation. The result would be increased political power and, as a result, the creation of policies in their favor. In contrast, their counterparts in the country with proportionally more unskilled workers would likely lose some of their political power due to the contraction of the industry where they were employed, which would take place with market integration.

In summary, the Heckscher-Ohlin approach gives us insight about the direction of policy change under conditions of globalization. All else being equal, countries with proportionally more high-skill workers are likely to have policies that benefit skilled workers. In economies with an abundance of unskilled labor, however, globalization will tend to threaten the interests and status of workers with specialized skills. In the following paragraphs, I describe actors' preferences regarding employment protection and discuss the impact of economic openness on their political power.

Preferences and Political Influence

In the earlier section on employment protection, I made the distinction between standard and atypical forms of employment protection, which provide qualitatively different things for workers. For analytical purposes, I only consider the former type of employment protection, which governs the firing of "regular" workers.

I assume that skilled labor has a direct interest in employment protection. This assumption about skilled labor's preference is in line with skill-based theories of social policy preference. Because workers with specialized skills would have a harder time finding a new job commensurate with their skills or suffer a significant decline in income in case of job loss, it

makes sense that they would like to have an institutional guarantee that their job is secure (Iversen & Soskice, 2001). On the other hand, to the extent that employment protection increases non-wage labor costs and thereby hurts their chances of employment, unskilled workers would prefer lower levels of employment protection but otherwise they do not have an immediate interest in employment protection. Now let's consider how economic openness affects the political influence of these two groups. For reasons suggested in the previous section, skilled labor commands more political resources to affect policy, and autarkic conditions would bestow skilled workers with even more political power, especially when skilled labor is scarce. Therefore, *ceteris paribus*, under autarky, the level of employment protection is likely to be higher in the poor country where skilled labor is scarce. How would opening up the economy affect employment protection policies? The stylized model in the preceding section implies that openness will weaken the political power of skilled workers in the poor country while empowering their counterparts in the rich country, decreasing employment protection in the former while increasing it in the latter.

The Effect of Deindustrialization

So far, I have only considered the effect of economic openness. To analyze the impact of deindustrialization, we need to go back to the assumption, discussed earlier, that there are three sectors. When the two countries start trading with each other, each nation will concentrate on producing those goods for which it has a comparative advantage. The rich country will tend to produce high-skill-intensive goods, whereas the poor country will tend to produce low-skill-intensive goods. This will lead to changes in the relative size and economic fortune of the sectors in each economy. High-skill-intensive manufacturing will grow in the rich country and contract

in the poor country; however, openness will have the opposite effect on low-skill-intensive manufacturing. All else being equal, the shift in the relative size of each sector will translate into increasing or decreasing political influence. Assuming that skilled labor strongly prefers having employment protection, their greater political influence will result in stronger employment protection in the rich country. In contrast, skilled labor in the poor country will have a harder time obtaining employment protection.

Deindustrialization means the growth of the non-tradable service sector, which is caused by exogenous factors, such as technological progress, demand conditions and shifting consumption patterns (Iversen & Cusack, 2000). Because the service sector uses unskilled labor intensively, exogenous changes would prompt the skill composition of each economy to shift toward a higher ratio of unskilled to skilled labor. As a result, it is expected that such structural pressure on the labor market's skill composition will lead to changes in policy. With the expansion of the service sector, skilled labor will find it increasingly difficult to hold sway over employment protection policies, and as a result, all else being equal, employment protection will weaken.

Predictions for Employment Protection

To understand the effects of the international economy and deindustrialization on employment protection, I began this section with a hypothesized world with only two countries—one with proportionally more skilled laborers than the other—and three sectors. In general, skilled labor prefers higher levels of employment protection. And international trade will change the size of political coalitions for employment protection. The growth of the service

sector is expected to weaken the pro-protection coalition and, as a result, lead to lower levels of employment protection.

These theoretical predictions seem to resonate with the ways in which globalization and deindustrialization have influenced political conflicts over job protection in the real world. The relaxation of employment protection has emerged as one of the most contested and divisive political issues in both developed and developing countries. On one hand, proponents of liberal labor reform point to the growing importance of flexibility for firms to survive in an increasingly competitive international market. However, heightened fears of job loss have reinforced workers' demand for governments to protect them from such economic and political pressures. Skilled workers in relatively well-organized trade unions have been, in many countries across the globe, actively and collectively engaged in defending themselves against intensifying assaults on existing job protection policies. Despite organized labor's universal opposition to liberalization, however, I predict that trade plays a role in producing different outcomes of the political contestation over employment protection according to the nation's skill distribution. My expectation is that trade will tend to strengthen the political clout of skilled workers in countries where they are relatively abundant, thus making liberalization difficult. Conversely, skilled workers in the developing world will find it increasingly more difficult to defend themselves against the drive to liberalize.

In either case, labor unions that represent skilled workers are often criticized on the grounds that strict employment protection policies negatively affect unskilled workers, who are inordinately vulnerable to begin with. One of the most striking developments in recent decades has been the increasing prevalence of atypical employment which is not sheltered by standard employment protection regulations. Many marginalized workers in the labor market are believed

to be trapped in “bad” jobs that expose them to greater risks, such as job loss and income instability. Although the jury is still out regarding the role of employment protection in producing adverse labor market outcomes, there is a general agreement that in advanced industrial economies, technological and structural transformations has contributed to employment instability and the rise of atypical employment.

Decreasing job security has pushed policymakers to come up with new institutional solutions to protect workers in atypical employment arrangements. Restrictions on fixed-term contracts and on the types of work and the industries for which atypical work arrangements are permitted represent such policy responses. However, the same structural forces that have ushered in institutional protections against new labor market risks are so overwhelmingly powerful that, in some countries, they do not strengthen, but weaken, the level of employment protection. As Table 2-1 illustrates, a great number of advanced countries have carried out liberal reforms that reduce protection for non-standard employees. There are comparatively fewer changes that have strengthened atypical employment protection.

Table 2-1. Changes in Employment Protection for Atypical Workers in the OECD

| | | Reform | Change |
|--------------------|------|--|--------|
| Belgium | 1997 | Restrictions on TWA were reduced and FTC were made renewable | - |
| Denmark | 1995 | Since the mid-1990s the role of TWA has been recognized by social partners and their scope increased | - |
| France | 1990 | The list limiting the circumstances in which the use of FTC and TWA is permissible is restored and the maximum total duration of FTC and TWA was reduced | + |
| Germany | 1994 | TWA legislation was loosened | - |
| | 1996 | The renewal period for FTC and TWA and admissible frequency of renewals were increased | - |
| | 2002 | Maximum total duration of TWA was brought to 24 months | - |
| | 2004 | The limit on the maximum total duration of TWA was lifted | - |
| Greece | 2003 | PD 81/2003 changes FTC and TWA | - |
| Hungary | 2003 | The amended labor code introduced stricter regulations on renewal of fixed-term contracts | + |
| Ireland | 2003 | The Protection of Employees act tightened regulation on valid cases for FTC and limited their maximum overall duration to 4 years | + |
| Italy | 1997 | Treu package on FTC widened the number of valid cases for the use of FTC | - |
| | 1998 | TWA were permitted | - |
| | 2000 | Reform of TWA 2000 extended the use of TWA and removed the restrictions concerning unskilled workers | - |
| | 2001 | Legislative Decree no. 368/2001 expanded valid cases for the use of FTC | - |
| | 2003 | Reform of TWA 2003 (Law no. 30/2003) extended further the use of TWA | - |
| Japan | 1996 | The use of TWA was extended to 26 occupations | - |
| | 1999 | The use of TWA was extended to all occupations with some exclusions | - |
| Korea | 1998 | TWA were liberalized | - |
| Netherlands | 1999 | The flexibility and security law increased the maximum possible number of FCT and lengthened the maximum total duration of contracts with TWA | - |
| New Zealand | 2000 | Employment relations act also tightened the legislation on FTC and | + |

| TWA | | | |
|----------------------|------|--|---|
| Norway | 1995 | TWA legislation was eased | - |
| | 2000 | TWA legislation was further eased | |
| Poland | 2002 | The new labor code lifted some restrictions in the use of FTC (from 2 renewals permitted to unlimited – until accession) | - |
| | 2003 | A new law tightened regulations on temporary work agencies limiting the cases when TWA contracts are allowed and reducing their maximum total duration | + |
| Portugal | 1996 | A strategic social plan between social partners was agreed to widen the use of FTC and TWA | - |
| | 2004 | New Labor Code came into force in December 2003 | - |
| Spain | 1994 | Rules governing renewals of FTC were tightened and temporary work agencies permitted | - |
| | 2001 | Law 12/2001 tightened the rules governing valid cases for the use of FTC | + |
| Sweden | 1993 | TWA were permitted | - |
| | 1997 | FTC were made possible without objective reason | - |
| Great Britain | 2002 | Maximum total duration of FTC was reduced to 4 years (from unlimited) | + |

Note: FTC = fixed-term contracts, TWA = temporary work agencies
 (+) indicates stronger protection; (-) indicates weaker protection.

Source: OECD Employment Outlook 2004, p. 119-120.

To summarize the predictions based on my theory,

1. Trade openness and employment protection will be positively associated in developed countries and negatively associated in developing countries.
2. All else being equal, deindustrialization, understood as the growth of low-skill services, will have a negative impact on standard employment protection.
3. All else being equal, deindustrialization, understood as the growth of low-skill services, will have a negative impact on atypical employment protection.

EMPIRICAL TESTS

Data

This section tests the main hypotheses derived from my theory using two datasets on employment protection. To my knowledge, this dissertation is the first in the field of political science to use them to analyze the politics of employment protection. These two are the most comprehensive and systematic datasets currently available.

The first dataset is the OECD's Indicators of Employment Protection (2008), which covers 30 OECD countries for the period between 1985 and 2008. The most useful feature of this dataset is that it contains annual information on both regular and atypical employment protection policies.¹² It calculates the strictness of three features of regular dismissal protection: 1) procedural inconveniences that employers face when starting the dismissal process, such as notification and consultation requirements, 2) notice periods and severance pay, which tend to

¹² In addition to information regarding regular and atypical employment protection, the dataset also includes information on the costs incurred from restrictions that governments impose on employers who dismiss a large number of workers at one time, such as additional delays and notification requirements. Because the data on additional costs are available for only a single year, I do not make use of them in this dissertation project.

vary by the tenure of the employee and 3) difficulty of dismissal, as determined by restrictions on the circumstances for which dismissing workers is permitted as well as the financial and procedural penalties for unfair dismissal.

The dataset also compares the strictness of legislative measures designed to protect workers from deteriorating conditions of atypical employment, such as: 1) restrictions on the types of work for which fixed-term and temporary work agency contracts are allowed and their duration, 2) regulations governing the establishment and operation of temporary work agencies and 3) requirements for firms to provide regular and temporary agency workers with equivalent treatment and pay.

The availability of cross-national and yearly information on these two separate dimensions of protection allows me to test the hypothesized causal relationships between globalization and deindustrialization and worker protection. I have argued that globalization, as defined by increased trade volume, does not necessarily work against job protection. In some cases, workers who have a keen interest in job protection may be able to successfully defend or even push for stronger policies that reduce job instability. In other parts of the world, skilled workers may find that, as economic openness causes their political influence to decline, they are unable to defend the protection that they have enjoyed. As discussed above, the crucial factor that determines which of these two paths will be taken is the relative scarcity of skilled labor. Relative to other countries, the member countries of the OECD obviously have a greater abundance of skilled labor, so it is possible to test whether increased trade indeed has had a positive effect on workers in high-skilled countries.

On the other hand, I have argued that the growth of low-skill-intensive services fundamentally transforms employer-employee relationships and is thus likely to have a negative

impact on employment protection policies.¹³ With the growth of the low-skill service sector, employment relationships are more likely to become atypical, shorter and less stable. We can use the OECD data to empirically determine how deindustrialization has generated pressures in both areas of labor market protection. I expect that deindustrialization will have a negative effect on both regular and atypical employment protection policies in OECD countries.

The other dataset that I analyze comes from Heckman and Pagés (2004). They have constructed an extensive dataset covering both the OECD and Latin American countries for the period of 1980-1998. As already mentioned, cross-national data on employment protection is very rare. Even in comparison to the cross-sectional data of Botero et al. (2004), this dataset is a great advancement in that it provides yearly information regarding the effects of globalization between developed and developing countries over a considerable period of time. One major difference between this and the OECD data is that the former does not cover atypical employment. But for regular employment protection, the correlation between the two datasets is high (0.65), which suggests that they are reliable. The average level of employment protection in Latin America tends to be higher than in OECD countries. At first glance, the data do not show a radical break from the protective institutions during this period. Following the debt crisis, many countries in this region went through economic recessions and painful structural adjustments, characterized by an opening up of their domestic markets and the toppling of the protective trade regimes that they had inherited from the Import Substitution Industrialization (ISI) period. It will be quite interesting to see whether the causal connection between trade and employment protection is borne out by the data.

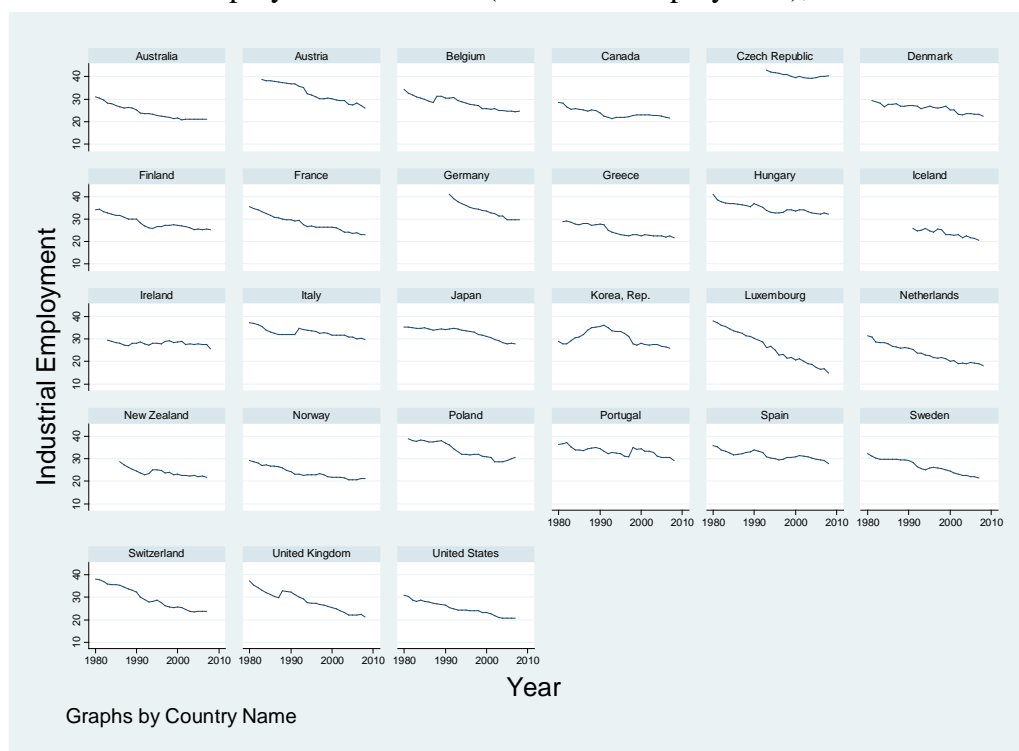
¹³ “While in an industrial economy,” write Carnes and Mares (Carnes & Mares, 2010: 13), “the modal type of job is a contracted job, in a post-industrial economy modal employment is independent”.

The effect of deindustrialization on employment protection is less obvious.

Deindustrialization, i.e. the growth of the service sector, is generally considered as taking place in advanced industrial economies, but it also takes shape in many developing countries. Carnes and Mares (2010) argue that structural changes in Latin America and OECD economies have been comparable in size and equally transformative in their impact on the welfare state. However, a closer look at the patterns of growth in service employment reveals that Latin America has undergone structural changes of quite a different nature.

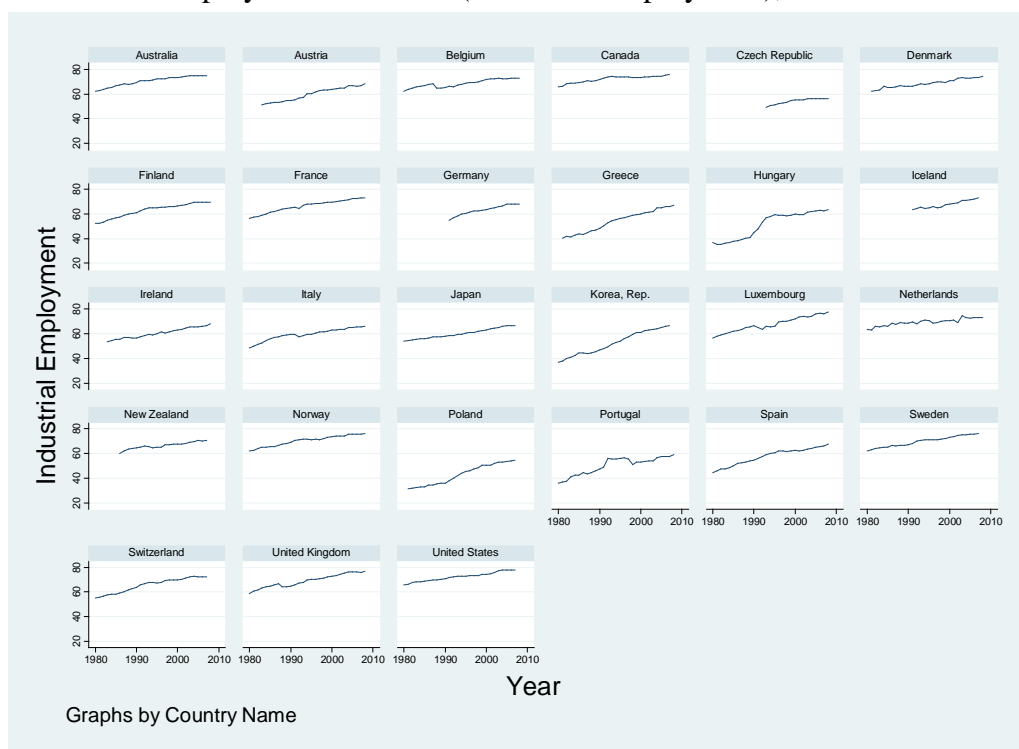
The following figures illustrate the trends of industrial and service employment in OECD and Latin American countries between 1980 and 2008. Figures 2-1 and 2-2 clearly demonstrate that the rise of service employment in OECD nations was highly correlated with the decline of industrial employment. As the term “deindustrialization” implies, employment shifted from industry to services. However, for Latin America, Figures 2-3 and 2-4 show that this “deindustrialization” did not take place. Although employment in services was trending more or less upward, industrial employment did not decrease markedly. The region did not exhibit any noticeable pattern of employment shifts from manufacturing to services and certainly did not experience the same “deindustrialization” process as high income democracies.

Figure 2-1. Industrial Employment in OECD (% of total employment), 1980-2008



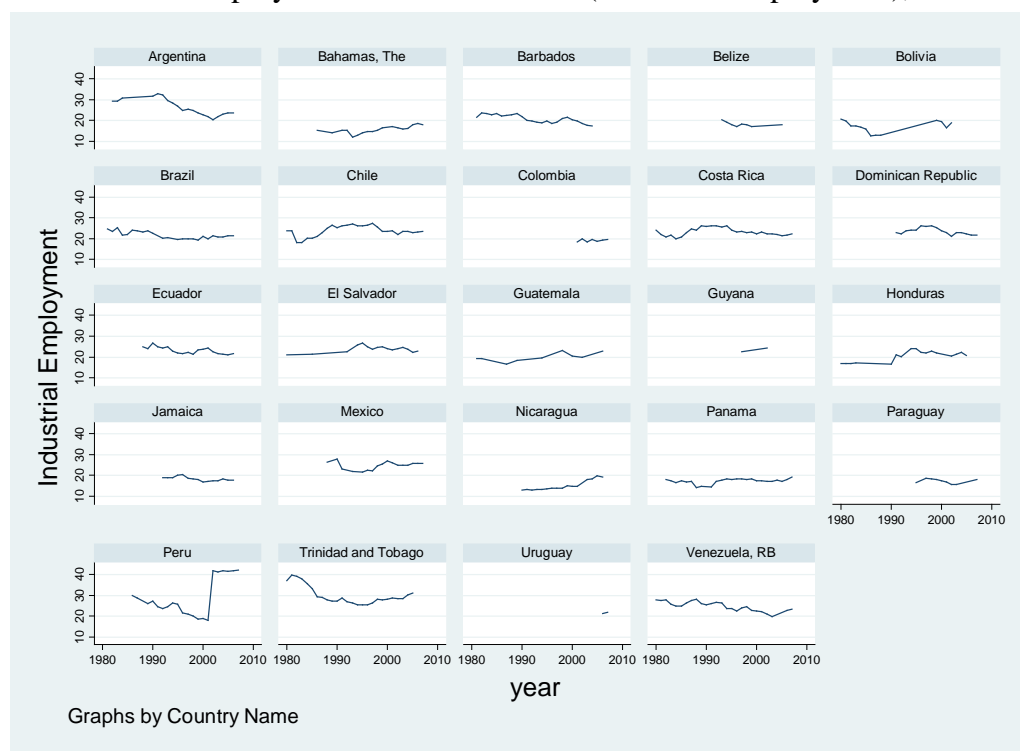
Source: World Bank, World Development Indicators

Figure 2-2. Service Employment in OECD (% of total employment), 1980-2008



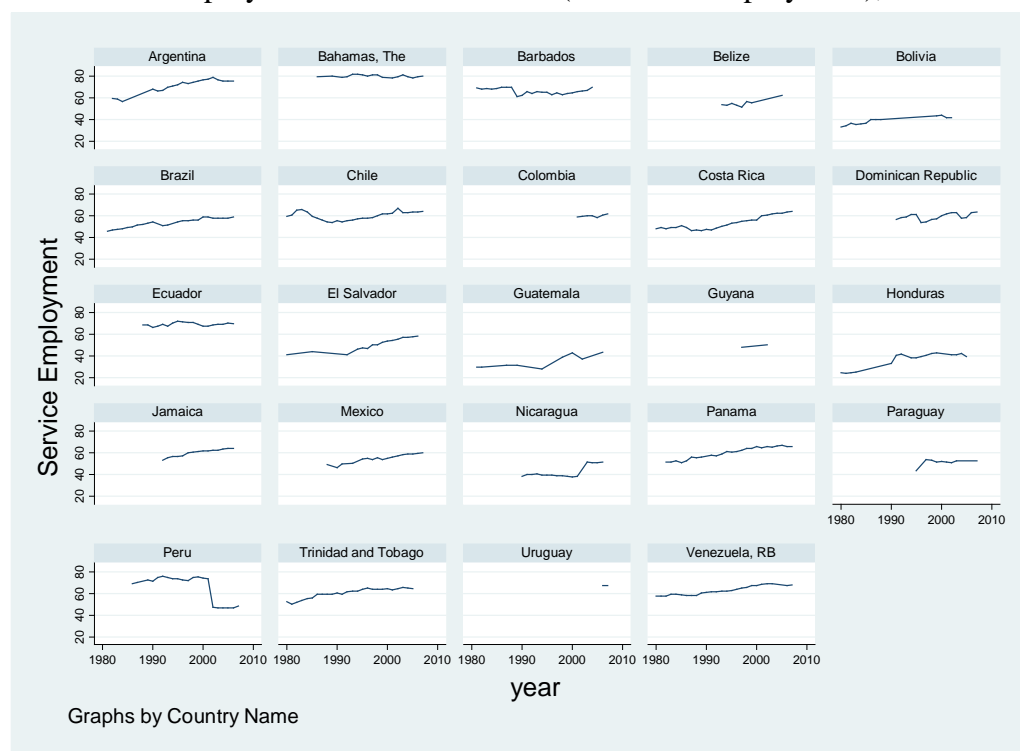
Source: World Bank, World Development Indicators

Figure 2-3. Industrial Employment in Latin America (% of total employment), 1980-2008



Source: World Bank, World Development Indicators

Figure 2-4. Service Employment in Latin America (% of total employment), 1980-2008



Source: World Bank, World Development Indicators

To make a more accurate assessment of the service economy in Latin America, Table 2-2 shows pair-wise correlation coefficients between jobs in service, industry and agriculture. The correlation coefficient between service and industry is small and positive, suggesting that in Latin America, the growth of the service sector was not attributed to industrial decline. Agricultural decline seems to have driven the expansion of both manufacturing and service (negative coefficients between agriculture and industry and between agriculture and service). In sum, Table 2-2 confirms that deindustrialization, as such, did not take place in Latin America. Consequently, when we examine how the service economy affects employment protection, we will have to exercise caution; growth in the service sector cannot be equated with deindustrialization. The expansion of the service sector represents a fundamentally different process in Latin America.

Finally, in both datasets higher scores on the employment protection variable indicate the presence of stronger protection policies. The list of countries included in my analysis is provided at the end of this chapter in Appendix 2-1.

Table 2-2. Pair-wise Correlations of Employment in Service, Industry and Agriculture, 1980-2008

| OECD | Service | Industry | Agriculture |
|-------------|---------|----------|-------------|
| Service | 1 | | |
| Industry | -0.7586 | 1 | |
| Agriculture | -0.8697 | 0.3572 | 1 |

| Latin America | Service | Industry | Agriculture |
|---------------|---------|----------|-------------|
| Service | 1 | | |
| Industry | 0.0448 | 1 | |
| Agriculture | -0.9121 | -0.4013 | 1 |

Source: World Bank, World Development Indicators.

Main Explanatory Variables

To examine the relationship between globalization and employment protection, I use two standard measures of globalization: trade (sum of imports and exports as % of GDP) and capital movements (total private capital flows as % of GDP). My theory predicts a significant effect of trade, but does not make any specific predictions about capital movements. Based on the theory presented above, I expect trade to have a significant and positive effect on worker protection in OECD countries, but not in Latin America. Although there is some evidence that some types of international capital may make workers less secure (Frieden, 1991; Mosley, 2003; Simmons, 1999), globalization has not been theorized as having so large and systematic an effect on national labor markets that would bring about legislative changes regarding employment relationships.

Following Iversen and Cusack, I operationalize deindustrialization as 100 minus the combined percentage of workers in manufacturing and agriculture r as a percentage of the working-age population. Alternatively, we could use service employment data, which by definition, is equivalent to this operationalization. Indeed, they are almost identical (correlation=0.99). However, note that in Latin America, this variable does not necessarily represent “deindustrialization” as such; it merely indicates the size of the service sector. All of the data come from the World Bank’s World Development Indicators.

Other Control Variables

Besides the two main explanatory variables, I control for other factors that might also influence employment protection. We can reasonably assume that government partisanship may affect the level of employment protection. Rueda (2005, 2006, 2007), in particular, argues that

Leftist parties tend to promote employment protection for labor market insiders, who are the core constituency. Although he provides some empirical evidence for a positive association between Leftist governments and employment protection, he does not test for its effect on atypical employment, which is a central part of his thesis on the insider–outsider divide. Armed with comprehensive data on atypical employment, I test for the potential influence of a governing party’s ideological orientation with respect to economic policy, a variable provided by the World Bank’s Database of Political Institutions (Beck, Clarke, Groff, & Walsh, 2001).

A second control variable is union density, which is a standard measure of the strength of organized labor (Golden, Wallerstein, & Lange, 1999). To the extent that it represents the interests of skilled workers, union density is expected to have a positive effect on employment protection. With respect to atypical employment, then, it follows that it will not have a discernible effect on employment protection. Data on the size of union membership in developing countries is sparse and not highly accurate due to the intrinsic difficulty of collecting data in these areas. The most reliable information for advanced industrial countries is the Union Centralization Dataset provided by Golden et al. (2009), which is limited to twenty advanced industrial countries. To compensate for the unavailability of information on Latin American countries, I instead rely on the percentage of wage and salaried workers in the total workforce. Since workers employed in the formal sector tend to unionize better and to be better positioned to take collective action such as protests against labor reform than self-employed or other types of independent workers, this measure is used as a proxy for union organization.

The literature has also emphasized the importance of skill investments for coordinated market economies and singled out employment protection as one of the institutional solutions that protect and encourage skill investments. To test this hypothesis and control for the possible

influence of training on employment protection, the average years of schooling for the economically active population has been included in the regressions.

To control for economic conditions that might influence the context of labor reform, most of the regressions include unemployment rates and GDP growth rates. The effect of unemployment could be positive or negative; a deteriorating job market might create the pressure for liberal reform for the sake of job creation, or it might incite stronger resistance from workers against such moves. Economic growth could work similarly in the politics of employment protection.

Lastly, to control for economic and political heterogeneity within Latin America, I include additional variables such as the strength of democracy and the level of economic development. The source of the data for these independent variables appears in Appendix 2-2.

Estimation Results

To test the hypotheses on the causal relationships between globalization, deindustrialization and employment protection, I estimate cross-sectional time-series models for a diverse set of countries over the last three decades. I employ ordinary least squares (OLS) estimation with panel-corrected standard errors, a standard method in comparative political economy. Cross-sectional time-series data present a particular set of challenges for estimation (Beck & Katz, 1995, 2011). But the panel-corrected standard errors recommended by Beck and Katz (1995) have been widely adopted by researchers to correct for panel heteroskedasticity and spatial contemporaneous autocorrelation. For potential problems of serial autocorrelation within each panel, I also adjust for a panel-specific autoregressive process (AR-1) in estimation.

The results of analyses using the OECD data for regular and atypical employment protection in the developed world are presented in Tables 2-3 and 2-4, respectively. Using Heckman and Pagés' data on regular protection in the OECD and Latin America, I show several models in Table 2-5 that test for the differential effects of the main independent variables on the developed and developing worlds. In all models, positive coefficients imply a positive impact on employment protection.

Table 2-3. The Determinants of Regular Employment Protection in the OECD
(OECD Data)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Trade | 0.004*** (0.000) | 0.004*** (0.000) | 0.008*** (0.0024) | 0.011*** (0.002) | 0.014*** (0.002) |
| Capital Flows | 0.001 (0.001) | 0.001 (0.001) | 0.004* (0.002) | 0.005** (0.002) | 0.004* (0.003) |
| Deindustrialization | -0.033*** (0.004) | -0.031*** (0.004) | -0.055*** (0.01) | -0.051*** (0.001) | -0.026*** (0.01) |
| Unemployment | -0.006 (0.006) | -0.006 (0.005) | 0.012 (0.01) | 0.008 (0.01) | -0.008 (0.012) |
| GDP Growth | 0.001 (0.003) | 0.001 (0.003) | -0.01** (0.004) | -0.012*** (0.004) | -0.009* (0.005) |
| Left Government | | -0.003 (0.014) | 0.042* (0.024) | 0.04* (0.024) | 0.054* (0.03) |
| Union Density | | | -0.006 (0.005) | -0.007 (0.005) | -0.004 (0.003) |
| Schooling | | | | -0.088** (0.042) | -0.045 (0.043) |
| GDP per capita | | | | | -1.094*** (0.4) |
| Democracy | | | | | -0.145 (0.116) |
| Constant | 4.054*** (0.225) | 3.899*** (0.218) | 5.547*** (0.691) | 5.973*** (0.663) | 17.953*** (3.879) |
| N | 544 | 544 | 239 | 239 | 239 |
| R² | 0.90 | 0.85 | 0.85 | 0.85 | 0.92 |

Note: ***p<0.001, **p<0.01, *p<0.05 The dependent variable for regular employment protection ranges from 0 (least protective) to 6 (most protective).

OLS coefficients are reported with panel corrected standard errors in parentheses.

Table 2-4. The Determinants of Protection of Atypical Employment in the OECD
(OECD Data)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 |
|----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Trade | 0.005* (0.0028) | 0.005* (0.003) | 0.003 (0.004) | 0.003 (0.004) | 0.000 (0.004) |
| Capital Flows | -0.000 (0.002) | -0.000 (0.002) | -0.006 (0.006) | -0.005 (0.005) | -0.006 (0.006) |
| Deindustrialization | -0.019*** (0.007) | -0.019*** (0.007) | -0.123*** (0.015) | -0.093*** (0.018) | -0.052** (0.022) |
| Unemployment | -0.029*** (0.01) | -0.029*** (0.01) | 0.047*** (0.015) | 0.031** (0.016) | 0.017 (0.022) |
| GDP Growth | -0.005 (0.006) | -0.005 (0.006) | -0.013 (0.012) | -0.011 (0.012) | -0.01 (0.014) |
| Left Government | | -0.014 (0.385) | -0.013 (0.054) | -0.03 (0.056) | -0.053 (0.072) |
| Union Density | | | 0.011 (0.007) | 0.009 (0.007) | 0.007 (0.006) |
| Schooling | | | | -0.185*** (0.065) | -0.15** (0.074) |
| GDP per capita | | | | | -0.439 (0.419) |
| Democracy | | | | | -0.769*** (0.222) |
| Constant | 2.835*** (0.387) | 2.852*** (0.385) | 9.4*** (1.002) | 9.435*** (0.914) | 26.48*** (5.671) |
| N | 544 | 544 | 239 | 239 | 239 |
| R² | 0.76 | 0.76 | 0.74 | 0.80 | 0.78 |

Note: ***p<0.001, **p<0.01, *p<0.05

The dependent variable for atypical employment protection ranges from 0 (least protective) to 6 (most protective).
OLS coefficients are reported with panel corrected standard errors in parentheses.

Table 2-5. The Determinants of Regular Employment Protection in the OECD and Latin America (Heckman and Pagés Data)

| | Model 1 OECD | Model 2 All | Model 3 All | Model 4 All | Model 5 LA | Model 6 LA |
|----------------------------|-------------------------|------------------------|------------------------|------------------------|-----------------------|-----------------------|
| Trade | 0.002* (0.001) | 0.007*** (0.002) | -0.011*** (0.003) | -0.013*** (0.003) | -0.005 (0.003) | -0.024*** (0.005) |
| Capital Flows | 0.004** (0.001) | 0.003 (0.005) | -0.001 (0.004) | 0.001 (0.004) | 0.001 (0.006) | -0.001 (0.008) |
| Deindustrialization | -0.012*** (0.003) | 0.05*** (0.013) | 0.137*** (0.022) | 0.087*** (0.021) | 0.098*** (0.023) | 0.247*** (0.03) |
| Unemployment | 0.006 (0.004) | -0.008 (0.011) | -0.08*** (0.018) | -0.035** (0.017) | -0.095*** (0.027) | -0.21*** (0.032) |
| GDP Growth | -0.002 (0.002) | -0.004 (0.009) | 0.003 (0.008) | -0.003 (0.008) | -0.018 (0.012) | -0.008 (0.015) |
| Left Government | 0.036** (0.013) | -0.014 (0.065) | 0.108 (0.099) | 0.149 (0.092) | 0.091 (0.173) | -0.038 (0.273) |
| Schooling | -0.07*** (0.0227) | -0.666*** (0.1) | -0.466*** (0.111) | -0.367*** (0.101) | -0.399** (0.179) | -0.074 (0.206) |
| GDP per capita | | | -1.803*** (0.163) | -0.541** (0.239) | | -0.878** (0.43) |
| Democracy | | | -0.008 (0.032) | 0.012 (0.03) | | -0.036 (0.038) |
| Salaried Workers | | | 0.058*** (0.01) | 0.071*** (0.009) | | 0.071*** (0.012) |
| Latin America | | | | 2.747*** (0.397) | | |
| Constant | 2.408*** (0.221) | 4.681*** (0.586) | 12.212*** (1.47) | 0.472 (2.517) | 2.4*** (0.84) | -2.307 (3.514) |
| N | 349 | 559 | 428 | 428 | 210 | 166 |
| R² | 0.83 | 0.63 | 0.69 | 0.71 | 0.51 | 0.79 |

Note: ***p<0.001, **p<0.01, *p<0.05

OLS coefficients are reported with panel corrected standard errors in parentheses.

The estimated models in Table 2-3 were designed to describe how globalization and deindustrialization affect skilled workers in high income countries. Among the variables, the coefficients of trade and deindustrialization are the most consistent, are highly significant and have the expected signs, giving credence to my theory. First, trade has a positive impact on employment protection for regular workers, even in models that include other political and economic control variables. Second, deindustrialization reduces job security in all models, as shown by its highly significant negative effect. And this effect also does not disappear due to other factors such as the governing party's ideological orientation or the strength of trade unions.

Compared to trade, other factors such as cross-border movements of private capital do not have much of an impact on domestic institutions of employment protection. The emerging literature on foreign capital has been trying to establish a causal mechanism through which it affects workers' welfare, but thus far there has not been much evidence to support such a link. With respect to employment protection, the results presented here suggest that there might be a small positive impact on skilled workers in high income countries.

While the strength of trade unions does not seem to have a particular influence on the level of protection, having a Left-leaning government does, as indicated by positive coefficients in Models 3, 4 and 5 in Table 2-3. This is in accordance with the prediction of insider-outsider labor politics.

Table 2-4 presents the determinants of atypical employment protection in OECD countries. As in the case of regular protection, I have included various controls to rigorously assess the effects of the main variables. The results lend support to my theoretical prediction that the link between globalization and atypical employment protection is tenuous but that

deindustrialization should be an important factor. In Models 1 and 2, the trade variable is significant and has a positive sign; however, this effect disappears when other factors are taken into account (Models 3, 4 and 5). These results are in stark contrast with the consistent significance of trade in Table 2-3.

In addition, the performance of the deindustrialization variable provides further empirical support for my theory. In all models, its coefficients are highly significant and consistently negative, regardless of whether other variables are included. The combination of significant deindustrialization and insignificant trade effects, therefore, confirms the hypothesis that deindustrialization, not trade, is responsible for producing new labor market risks characterized by the growing presence of unstable, low-paying, low-skill or atypical jobs. Growing service sectors put mounting pressure on existing regulations on atypical employment, and post-industrial economies have been moving, overall, toward lifting restrictions on atypical employment. Moreover, neither Leftist governments nor trade unions have been able to slow the expansion of atypical employment, as indicated by the insignificant coefficients of both variables in Models 2, 3, 4 and 5. The insignificance of government partisanship contrasts starkly with its positive effect on employment protection as reported in Table 2-3.

I used the Heckman and Pagés data on employment protection both for the OECD and Latin America to test the various hypotheses for the developed and developing worlds. As a result, the models presented in Table 2-5 were estimated with a different sample of countries, but for the sake of comparison, Model 1 is limited to the OECD countries. The following three models include all countries in the dataset. Models 5 and 6 focus on Latin America and the Caribbean countries. To control for the effects of organized labor, I use the percentage of wage

and salaried workers instead of trade union density due to the lack of reliable data for the Latin American countries.

The first thing to note is that the estimates in Model 1 are strikingly consistent with the findings from the earlier regressions in Table 2-3 with the OECD's Indicators for Employment Protection data. Compared with Model 3 in Table 2-3, the coefficients for trade, capital flows, deindustrialization, Left government, and schooling perform in an almost identical way, in terms of both statistical significance and direction of effects. Obtaining similar results from two separate datasets lends great support to the findings.

The next most striking result is that the effects of trade and deindustrialization are totally different for the world outside the high income nations. In Latin America, trade is negatively associated with employment protection while deindustrialization is found to have a positive influence (Models 5 and 6). Due to these conflicting effects, the analysis of an enlarged sample including both the OECD and Latin America accordingly returns inconsistent estimates for the variables (Models 2, 3 and 4). Consistent with my theory, the sign of the trade variable is negative; trade has been hypothesized to weaken skilled labor in developing countries and, as a result, skilled workers are likely to lose protections that they enjoyed under a closed economy.

The effects of deindustrialization are also reversed for Latin America; its positive association with employment protection suggests that in Latin America, the service sector has grown for different reasons than equivalent growth in advanced industrial economies. As noted, whereas in the developed world the service sector has grown as the industrial sector has contracted, this has not been the case in Latin America. Employment growth tended to take place simultaneously in the service and manufacturing sectors. The implication for labor markets is, therefore, completely different.

There could be two possible explanations for the positive impact of service employment on employment protection. First, the movement of workers from the agricultural to the urban sector might represent a modernization of employment, which might imply an increase in regulatory oversight. Unlike the agricultural sector, which tends to be outside employment regulations, employment in the urban sector fosters workers' need for regulatory intervention. The transition from the former to the latter could contribute to the strengthening of employment protection.

Second, a large inflow of unskilled workers into urban sectors might lead workers in the formal sector to seek stronger employment protection to strengthen their position.

Because these two explanations are only suggestive, it is clear that we need more detailed research into how the service sector grows across countries. In Latin America, the growth of the service sector does not necessarily imply a greater strain on skilled workers in the formal sector as is the case with high income countries. On the contrary, the influx of unskilled labor from rural areas may even work to the advantage of skilled workers in the industrial sector.

Finally, the positive coefficient of salaried workers suggests that the (potential) organizational capacity of workers is likely to promote strong employment protection policies.

In sum, the evidence from the cross-sectional time-series models gives credence to the hypotheses developed in this chapter. Trade does not always have a negative effect on workers' job security. The growing importance of the service sector also seems to have different implications for employee protection in the OECD and in Latin America. Workers in developed and developing countries seem to face different types of labor market risks.

IMPLICATIONS FOR THE WELFARE STATE

Why did some countries fail to liberalize employment protection while others succeeded? The competitive pressures from the global economy have been presumed to make it increasingly more difficult to maintain strong policies that protect workers. However, the divergent outcomes of attempted labor reforms and the continued diversity of labor protection regimes between countries call into question the conventional wisdom about the “race to the bottom.” To provide a better explanation, this chapter has proposed a theoretical framework that can help us understand how the global economy and the rise of the service economy affect national labor markets. Trade was hypothesized to change the relative strength of skilled workers by expanding or contracting the size of sectors that require different degrees of skill. Skilled workers, who are the primary beneficiaries of employment protection, are better able to pressure governments to adopt protective labor policies in wealthy democracies than in less developed economies. Empirical support for the different consequences of trade has been found in the statistical analyses in this chapter.

The theory also incorporates the latest findings from literature on the welfare state—the effects of deindustrialization. I have examined the simultaneous effects of external and internal evolutions of the market economy. My cross-national time-series analysis supports the argument about the transformational role of deindustrialization. Lastly, another contribution of this study is to provide an analytical framework that differentiates developed and developing economies. Workers are experiencing different levels and types of labor market risk depending on their skills and their economic environment. The transitions from closed to open economies and from agricultural or industrial to post-industrial economies produce tremendous changes in labor markets. The statistical testing supports the impact of those changes on employment protection

institutions across countries at different levels of development and across different types of labor market risk.

Taken together, the empirical evidence of this chapter shows that changes in employment protection strongly correlate with economic factors, both external and internal. Existing work on the welfare state assigns an unusual degree of importance to market integration and post-industrialism. The strong correlation between these factors and employment protection that were reported in this chapter raises the possibility that changes in employment protection play a role in the evolution of social policy. The next chapter provides and tests a theory that connects employment protection to governments' social policy responses.

Appendix 2-1. List of Countries Included in Sample

| | |
|----------------|----------------|
| 1 Argentina | 42 Spain |
| 2 Australia | 43 Sweden |
| 3 Austria | 44 Switzerland |
| 4 Belgium | 46 Turkey |
| 5 Belize | 47 UK |
| 6 Bolivia | 48 US |
| 7 Brazil | 49 Uruguay |
| 8 Canada | 50 Venezuela |
| 9 Chile | 51 Bahamas |
| 10 Colombia | 52 Barbados |
| 11 Costa Rica | |
| 12 Czech | |
| 13 Denmark | |
| 14 Dominican | |
| 15 Ecuador | |
| 16 El Salvador | |
| 17 Finland | |
| 18 France | |
| 19 Germany | |
| 20 Greece | |
| 21 Guatemala | |
| 22 Guyana | |
| 23 Honduras | |
| 24 Hungary | |
| 25 Iceland | |
| 26 Ireland | |
| 27 Italy | |
| 28 Jamaica | |
| 29 Japan | |
| 30 Korea | |
| 31 Luxembourg | |
| 32 Mexico | |
| 33 Netherlands | |
| 34 New Zealand | |
| 35 Nicaragua | |
| 36 Norway | |
| 37 Panama | |
| 38 Paraguay | |
| 39 Peru | |
| 40 Poland | |
| 41 Portugal | |

Appendix 2-2. Data Sources

Dependent Variables (Regular Employment Protection and Atypical Employment Protection)

OECD Indicators for Employment Protection, Version 2, Updated 2010-09-24,
Accessed at <http://www.oecd.org/employment/protection>

Heckman, James J. & Pagés, Carmen (2004), Law and employment
Data obtained from authors through personal communication.

Trade

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

Capital Flows

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

Unemployment

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

GDP Growth

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CHAPTER THREE

Explaining the Divergent Paths of the Welfare State:

The Role of Employment Insecurity

This chapter explores how employment protection shapes government responses to demands for social protection. The main thesis of this dissertation, once again, is that employment protection is a policy response to labor market risks generated by economic, structural forces. The previous chapter established that both international trade and the growth of the service sector have contributed to cross-national as well as temporal variation in employment protection. Now we turn to the relationship between employment protection and social policy in the context of globalization and deindustrialization.

Because changes in employment protection affect different labor market groups in different ways, it is unlikely that all workers will have the same preference regarding social protection. In particular, relatively high skilled, regular workers with indefinite contracts, immediate beneficiaries of employment protection are pivotal in determining the direction of social policy change. In addition, pre-existing institutions of social protection influence whether they will seek compensatory government intervention or not when faced with a decrease in employment protection. This study engages in the debate on the etiology of the welfare state by exploring how employment protection affects spending on social policies.

The findings of this chapter suggest that many studies in the current literature may have exaggerated the impacts of globalization and deindustrialization on the welfare state. They do not have as strong of an effect on social spending as has often postulated; there are not monotonous increases or decreases in social spending across countries. Rather, a series of statistical analyses

support the position that the governments of less developed countries tend to enact social policies that differ from those of higher income countries.

To explain the divergent paths of social policy around the world, I extend the theoretical reasoning developed in Chapter 2 by using employment protection as an explanatory variable. Through cross-national time-series analysis, I show that employment protection has consistently strong effects on adoption of social policies across countries, explaining away the effects of globalization and deindustrialization. By attending to the political process through which economic and technological influences percolate into the employment protection system—and, in turn, into changes in broader social policies—this study reigns in the exaggerated emphasis on exogenous factors.

I rely on a measure of total social expenditures to operationalize governmental commitments to social protection. Using the level of social spending is a standard choice in the literature, though not without some obvious drawbacks.¹⁴ In particular, the level of social expenditures cannot adequately capture qualitative changes in social policy.. Keeping in mind the limitations of statistical tests based on the level of social spending, therefore, I offer a nuanced analysis in this chapter, and in the following chapters I use in-depth case studies to illuminate the dynamics of qualitative policy changes that cannot be fully captured by statistical testing.

I begin by reviewing the literature that uses globalization and deindustrialization to explain changes in social policy and then discuss the major arguments about the role of

¹⁴ There are a number of scholars who have criticized the use of aggregate levels of social expenditures. Esping-Anderson (1990) suggests that we pay attention to distinct patterns and institutional arrangements of different types of the welfare state. Mares (2004, 2005) discusses the weakness of the level of social spending as an appropriate measure of social protection. Hacker (2002), in his study of the US healthcare system, points out that governments across the world have adopted a different mix of private and public provisions of protection. Estevez-Abe (2008) argues that Japan has developed comprehensive institutions of social protection, or “functional equivalents. Which social expenditure data cannot adequately capture.

employment insecurity. Many of these arguments were touched upon in the previous chapter, but here I focus on employment insecurity as an explanatory variable, a driving force for social policy change. I then present a theory that helps us understand how employment protection can shape welfare states around the world. As in Chapter 2, I attend to the difference between mature welfare states in the developed world and less developed social protection systems in other parts of the world. The empirical section tests the theory with cross-national time-series data on social expenditures from 1980 to 2008, the same period covered in the preceding chapter. After discussing my findings, I conclude this chapter by addressing possible objections and criticisms.

THE LITERATURE

In the field of international political economy, more ink has been spilled on the link between globalization and the welfare state than on any other topic. A literature review on this subject would typically start with a mention of David Cameron's study of some thirty years ago on 18 OECD countries (Cameron, 1978). Since his discovery of a positive relationship between trade and government size, many scholars have followed suit in attributing the postwar growth of the welfare state to the need to protect citizens from risks inherent to economic openness. "Embedded liberalism" is the term that international relations scholars used to describe the international-domestic linkage that was essential to the continuation and flourishing of the postwar free trade regime (Ruggie, 1982). With former communist countries and other developing nations joining the world trade regime in the 1980s and 1990s, scholars in globalization started to produce a voluminous number of studies and endeavored to discover new causal mechanisms linking global processes to domestic social policies.

While some of the early studies focused on how external economic forces might bring about increased government protection, more nuanced studies have tried to establish an important intervening role for domestic political institutions. First, the governing party's ideology has received attention for its role in staving off the economic pressure that supposedly would force governments to retreat from the market. Garrett (1998), in particular, argues for the importance of both organized labor and left-wing parties in shaping domestic responses to global economic forces. Within the welfare state literature, the power resources approach has emphasized that labor movements play an essential role in producing a generous welfare state (Esping-Anderson, 1985; Korpi, 1983, 2006). According to this perspective, strong, well-organized trade unions are better able to prevent the loss of social protections even if unrestricted capital flows and accumulating public debt make it increasingly difficult for the government to maintain generous social programs.

The revisionist view challenges this class-based approach. Based on recently uncovered evidence for employers' tacit support for social insurance in some cases of welfare policy development, the revisionist view instead focuses cross-class alliances and sector-based coalitions (Hall & Soskice, 2001; Mares, 2003; Swenson, 1991, 2002). Globalization, according to this sector-centered perspective, could sharpen the political cleavage between tradable and non-tradable sectors (Frieden, 1991). If we are to accept the basic premise that globalization implies greater economic risks, sectors exposed to competition with foreign producers are likely to advocate for increased social protection while the producers of non-tradable goods and services will potentially oppose social protection if they must share its cost.

Linking policy outcomes to political coalitions—whether class- or sector-based—assumes that governments inevitably respond to societal demands. Endogenizing this assumption,

Boix and Adsera (2002) consider a situation in which responsiveness to external risks is contingent on political openness. This point is particularly relevant for many developing countries where democracy is not a given. Similarly, Rudra (2005) argues that in developing countries, open economies do not always produce social safety nets; democracy often plays a role.

Aside from regime type, it is also important to distinguish between the paths taken by developed and developing countries in establishing the welfare state. Many of the conditions postulated as important for the development of the welfare state—dominance of social democratic parties, strong labor movements, corporatism, and democratic institutions—are lacking in the developing world.¹⁵ By attending to such differences, an emerging literature is examining whether the association between globalization and social spending extends beyond the developed world.

The evidence is inconclusive. While Rodrik (1997)—using a global sample that included developing countries—found a positive association between external risks and government size, many subsequent studies have disputed his findings and have offered alternative explanations for contrasting outcomes in developing countries. For example, Rudra (2002) argues that whether globalization will increase social spending depends on the size of skilled labor relative to unskilled and surplus labor. She finds that the relative abundance of unskilled, surplus labor seems to hamper collective action in defense of social protection. Similarly, Kaufman and Segura-Ubiergo (2001) find a negative association between globalization and social expenditures in Latin America, and they claim that partisan variables or the presence of democracy do not

¹⁵ The flip side of this point points to a crucial weakness of the traditional literature on the Western European welfare state. Since many of these variables tend to co-vary among themselves—that is, social democratic countries tend to have strong labor movements, corporatist institutions, sizable trade sectors, proportional representation, and a big government, it is hard to pin down a causal mechanism.

make a discernible difference on social spending. To explain why social spending does not rise with economic openness in developing countries, Wibbels (2006) emphasizes yet another dimension, namely, international economic factors that discriminate against developing countries and constrain their fiscal capacity to finance welfare programs.

Not surprisingly, many of the analyses focusing on total social expenditures have produced pessimistic results about developing countries' ability to protect their citizens from labor market shocks. Once total spending is disaggregated into different components, however, we obtain a more variegated, nuanced picture. Human capital investments such as education and health care spending may behave differently than spending on more traditional welfare programs (Haggard & Kaufman, 2008; Kaufman & Segura-Ubiergo, 2001; Wibbels, 2006). Even when severe fiscal constraints reduce total spending, governments have some flexibility to reassign priorities to different types of social programs. Overall, it seems that developing countries—even with their limited fiscal resources—have incorporated different aspects of the welfare state that align with their social and political priorities.

Recent comparative regional studies have started to illuminate the socioeconomic and political conditions that determine a country's priorities: their economic position in the world market, factor endowments, developmental strategies, initial levels of inequality and political dynamics within the governing coalition. In particular, a nation's developmental strategy seems strongly correlated with the size of the welfare state (Haggard & Kaufman, 2008; Wibbels & Ahlquist, 2011). Again, Latin America and East Asia provide classic examples of import-substituting industrialization (ISI) and export-oriented development strategies, respectively. Each region also contrasts starkly with respect to the welfare state. East Asian nations tend to be small, minimalist welfare states, whereas beginning as early as the 1920s, Latin America countries

began to develop occupationally-based welfare systems modeled along European lines (Mesa-Lago, 1978). On the other hand, East Asian countries have invested significant resources in public primary education and basic health services, which have contributed to rapid improvements in their human capital and a relatively equitable development process.

Given that the social protection policies of each region were designed to reach different segments of the population, globalization is expected to have impacted the welfare states in each region in different ways. For example, when Latin American governments tried to cut back on spending by privatizing financially unsustainable social security policies, the primary beneficiaries of occupationally-based programs experienced great hardships. The privatization of social security systems in the region has received a good deal of scholarly attention (Brooks, 2007; Madrid, 2003). A number of cross-national time-series analyses also find that social security has been the most vulnerable social expenditure (Kaufman & Segura-Ubiergo, 2001; Wibbels, 2006). This trend for liberalization aside, there has been a separate trend of policy reform that has broadened the scope of social protection to include things like improved basic health services for the poor (Kaufman & Nelson, 2004; Mesa-Lago, 2007; Weyland, 2007). It appears that the welfare systems that predate globalization have contributed to the dynamics of policy change, creating social policy winners and losers.

There have also been significant changes to social policies in East Asian countries. The minimalist welfare states—while still small in size compared to their peers at similar income levels—have moved toward providing greater protection from market insecurity. South Korea, with its drastic reforms of social insurance, is an outstanding example; within a very short span of time, it introduced or significantly expanded protections in several major areas—social security, unemployment and health. Accordingly, social expenditures have grown considerably,

but the breadth of this change cannot be fully captured by measures of total spending. Due to numerous instances of major policy changes carried out by less developed countries, we should exercise caution in accepting the pessimistic results of quantitative studies about the sustainability of the welfare state, which are derived from the analysis of social expenditures at highly aggregated levels. Much is concealed by these aggregate measures, and we have yet to fully understand the scope, not to mention the determinants, of change.

In summary, most theories that concern the emergence of the welfare state were built with only a small number of developed countries in mind. As a result, these theories do not adequately account for how the welfare state might differ in developing countries that have different historical experiences and socioeconomic characteristics. Many scholars have argued that the lack of democratic institutions, unified labor organizations and strong left-wing parties explain why developing nations have such low levels social protection. This reasoning has led many to conclude that the welfare state in these countries is much more vulnerable to global economic changes and that workers are likely to face greater labor market risks.

These studies have other limitations, however. Due to the difficulty of getting reliable data for many important variables, researchers have devised many alternative measures. For example, to measure the political power of workers, in place of trade union density, Rudra used “potential labor power”—the ratio between skilled labor and the sum of unskilled and surplus labor. Although this would capture labor market conditions that are probably conducive to getting political elites to be sensitive to workers’ demands, this is not exactly the same thing as capacity of labor to organize. Not only do macro variables such as regime type, on the other hand,

explain little of the variation in social spending in most statistical analyses, they also explain little about what is really going on within the system.

More qualitatively oriented studies have suggested that the causal linkage between globalization and social policy may be more complicated than macro analyses typically assume. These studies highlight conflicting trends both within and across countries, some of which indicate expansion of the welfare state. As an effort to distinguish between causal mechanisms, recent studies have attended to the initial economic and structural conditions of welfare regimes, which seem to have been played a large role in shaping and prioritizing various social policies. In addition, pre-existing institutions of social protection and political coalitions affect the policies that governments produce in response to external shocks.

What are the key variables that intervene between globalization and social policy? Focusing on the differences between coordinated and competitive market economies, Hays (2009) argues that labor market institutions affect how the domestic economy responds to trade-related shocks, generating demands for compensation and protection from the government. When comparing competitive and coordinated labor markets, trade is found to generate greater employment volatility in the former because trade-related shocks are passed on to workers in through changes in employment levels, and trade makes the demand for labor more elastic. In other words, labor market institutions, such as coordinated wage bargaining, can insulate workers from unemployment risk.

Hays' (2009) argument that unemployment risk is the key determinant of social protection policies resonates with the approach of this dissertation research. Though Hays emphasizes that labor market institutions transmit the effect of trade to unemployment risk,

however, my view gives much greater prominence to the labor market institution of employment protection in explaining the cross-national difference in governments' response to unemployment risks generated by international trade. Unemployment risk, which he defines as "the risk that someone will become unemployed over a given span of time," is precisely why employment protection policies emerge. We have already seen in Chapter 2 that there is significant cross-national variation in the degree to which labor market institutions provide protection. It is thus reasonable to expect that this variation will affect social policy. More specifically, in countries where there are strong labor market institutions, trade in itself may not have a noticeable effect on social policies. To the extent that employment insecurity is the driving force behind workers' demands for social protection, it is the institutions of employment protection that determine a government's level of commitment to social welfare systems.

Do we have sufficient evidence that employment insecurity indeed causes individuals and groups to seek changes in social policy? The existing literature provides some evidence that individual workers respond to greater employment risks. For example, a number of studies have examined how employment insecurity can shape their voting patterns (Kayser, 2007). Insecure workers are more likely to vote for a challenger than for an incumbent, for a left-leaning party than for a conservative one and for anti-establishment parties (Anderson & Jun, 1997; Golden, 2004; Hellwig & Samuels, 2007; Mughan, Bean, & McAllister, 2003; Mughan & Lacy, 2002). Provided that labor market institutions affect the level of employment insecurity (as claimed by Hays), such findings suggest that electoral pressures can push politicians to respond to employment insecurity with changes in social policies.

In addition to electoral mechanisms, the literature provides another analytical tool that is useful for capturing the relationship between employment protection and social policy. The coalitional perspective posits that different groups have different preferences over policy. As reviewed in Chapter 2, Rueda (2005, 2006, 2007) suggests that opposing interests between labor market insiders and outsiders explain why employment protection, passive labor market policy and active labor market policy differ under social democratic governments compared to Rightist or Centrist ones. He further argues that the effect of globalization on unemployment benefits and active labor market programs is negligible compared to the interaction between employment protection and government partisanship. This is the first empirical evidence suggesting that employment protection, independent of globalization variables, impacts broader social policies.

Scholarly interest in the relationship between deindustrialization and the welfare state is a more recent phenomenon. The revisionist view challenges the globalization literature, framing the growth of the welfare state in the developed world as a response to new labor market risks associated with the expanding service sector (Esping-Andersen, 1999; Iversen & Cusack, 2000). Scholars have also pointed out that governments can cope with deindustrialization by choosing from among several policies. Depending on a government's priorities—which are shaped by a constellation of ideological and political factors—policies may emerge that favor income equality, private employment growth or an expansion of public services employment (Iversen & Wren, 1998). This suggests that we might not necessarily observe a positive association between deindustrialization and total social expenditures. Rather, deindustrialization might impact the developing world by reallocating funds among different social policies that would not be apparent by examining overall levels of social spending (Carnes & Mares, 2010).

However, from just observing a comparable percentage of workers in the service sector, it would be premature to conclude that developing countries are experiencing the same type of economic transformation as advanced industrial economies. The analysis of the previous chapter confirms that there are systematic relationships between the size of the service sector and employment protection in both developed and developing countries, but also found that the relationships run in opposite directions for the two groups. I have proposed an explanation that the contrary effects of the service economy may be due to different process of the service expansion in Latin America. While for high income democracies the growth of the service sector is associated with the decline of manufacturing and the rise of atypical employment in services, the growth of services in developing countries seems to have more to do with decline in the agricultural sector. Thus, in terms of producing social policies, the governments of developed and developing countries are unlikely to respond to the growth of the service sector in the same way.

To sum up, previous studies have tended to frame globalization as directly bringing about the welfare state. Some emerging research, however, has explored the role of pre-existing domestic institutions as well as how differences between developed and developing countries engender different choices with respect to social policies. Such research offers a convincing theoretical challenge to the globalization camp. Taking note of how the rise of the service economy in Western democracies has generated labor market risks, emerging research attends to a variety of political responses within advanced industrial economies. However, studies that look at countries with lower income levels are sparse. Their experience in terms of inter-industry labor movements may be markedly different and have different implications for social policy

change. To fill in the theoretical and empirical gaps identified by this section, in the next section I extend the analytical framework introduced in Chapter 2 and present a theory that analyzes the role of employment protection on social spending in the context of globalization and deindustrialization.

THEORY: EMPLOYMENT PROTECTION AND SOCIAL POLICY

The purpose of this section is to provide a political explanation that accounts for differences in government commitment to social protection. The basic assumption is that employment insecurity is the key mechanism that causes political actors to seek out and produce changes in policy. I argue that both international trade and deindustrialization can potentially affect the size of the welfare state, but that employment protection plays a larger, more substantial role. In addition, pre-existing institutions of social protection influence the preferences of skilled labor regarding social protection and thus help determine the course of social policies.

Globalization

To develop a model of social protection, I make the same assumptions about international trade and deindustrialization that I made in the previous chapter. First, international trade, as suggested by the Samuelson theorem, benefits skilled labor in advanced industrial economies, while it adversely affects skilled workers in less developed countries. These changes are associated with changes in political power and, as a result, changes in social policy. In the case of employment protection, therefore, international trade will strengthen employment protection

in the developed world and weaken it in less developed countries. To the extent that skilled workers benefit from and thus prefer social protection, the effect of trade on skilled workers' relative strength will also translate into more extensive social policies. In developed countries, trade tends to empower skilled workers, and this power will likely translate into higher levels of social protection. In developing countries, trade has the opposite effect on skilled workers, thus producing lower levels of government intervention.

This conceptualization relies on two assumptions. First, I assume that globalization affects social policy *indirectly*, through the distributional consequences of international trade for skilled and unskilled labor in the North and the South. Specifically, the relative scarcity of skilled labor determines whether economic openness will benefit or harm high-skilled workers. This assumption, as in Chapter 2, derives from international trade theory, particularly from the work of Wood (1995). Dividing workers into three different skill categories, Wood suggested that trade would affect each group differently depending on whether a country has a relative abundance or scarcity of skilled labor. This theory has been widely drawn upon to explain rising skill premiums and falling real wages for low-skilled workers in advanced industrial economies. Political scientists have theorized that increased economic risks promoted the growth of Western welfare states. According to this theoretical model, however, it is low-skilled workers who lose from trade and who are responsible for the expansion of social protection. In contrast, I argue that in developed economies it is the winners (skilled labor), not the losers (unskilled labor), who foster the welfare state.

Previous studies based on Wood's distinction between skilled and unskilled labor, however, has not adequately explained the emergence of the welfare state in the developing world. If the theoretical framework based on this distinction is correct, then increasing trade

should benefit unskilled laborers in developing countries, and yet, this seems not to be the case. For example, Rudra (2002) argues that the negative association between economic openness and social spending in the developing world controverts the prediction that unskilled labor benefits from trade and, as a result, can pressure the governments into allocating more resources toward social protection.

My view is that the negative association can be accounted for when we consider the important role of skilled labor and the nature of pre-existing welfare programs. Many developing countries have developed a small welfare state that caters to a small segment of workers in the formal, public or privileged sectors. If globalization weakens skilled labor as Wood's theory would suggest, then it could lead to cutbacks to existing welfare programs.

My second assumption is that skilled labor has an immediate interest in social protection and is a key actor in changing policy. Recent studies shed light on what makes skilled workers an important political force for the development of the welfare state. Most famously, Iversen and Soskice (2001) have developed a skill-based explanation of individual preferences concerning social protection. In short, skilled workers generally prefer a higher level of social insurance due to asset-specificity, which makes it difficult for them to find a new job if they lose their current one. Not only are they interested in having social insurance, skilled workers also tend to have the political capacity to effectively pressure the government. Even if we account for the fact that pre-existing social policies and a government's administrative capacity to collect contributions and deliver benefits may cause skilled workers to prefer privatized insurance as opposed to government provisions, this assumption generally seems to hold true.

In summary, I have discussed two relationships in this section. First, trade benefits skilled labor in developed nations, but harms them in developing nations. Second, as a group, skilled

workers are instrumental in expanding social policies. It follows, then, that economic openness will expand social policies in developed countries, but curtail them in developing countries, all else being equal.

Deindustrialization

To understand the effect of deindustrialization on the welfare state, I follow the same reasoning used to analyze the relationship between the service economy and employment protection. In the previous chapter, I argued that deindustrialization—that is, the growth of the service sector—entails two different processes for developed and developing countries. Whereas the expansion of service employment in developed countries is typically associated with the contraction the industrial sector, in developing countries, it is associated with the contraction of the agricultural sector. As evidence, I have shown that deindustrialization produces opposing trends for employment protection in Latin America and the OECD. Existing literature has suggested that deindustrialization accompanies greater labor market risks and could be the driving force for the expansion of social policy, as expressed by increased social expenditures or more extensive social programs.

Let us first consider deindustrialization in developed countries. In analyzing labor market insecurity induced by the service sector in developed countries, I have distinguished between the risk of job loss and the growth of atypical employment. There could be two opposing forces. First, because skilled workers face greater risks, they will demand a greater level of social protection. Second, since deindustrialization implies the contraction of manufacturing—which employs a great number of skilled workers—it can weaken the political coalition that undergirds the welfare state. In order to determine which of these two forces is stronger, we need to consider

the nature of pre-existing social protection programs. Since social protection policies tend to be expansive in mature welfare states, they are often financially burdensome, leaving little room for a further expansion (Pierson, 2001). Furthermore, declining regular employment implies a less stable tax base, making it more difficult to increase social spending. In other words, in the developed world, we are likely to see that social spending declines with the growth of service employment.

For many developing nations, the growth of the service sector does not mean that there is a decline in manufacturing. Rather, it could indicate a shift from rural, agricultural work to both services and manufacturing. The transition to these modern sectors and the formal economy enlarges not only the organizational base of workers demanding social protection, but also the tax base that is necessary to finance welfare programs. Therefore, in developing countries, the growth of the service sector will likely lead to an increase in social spending.

The Role of Employment Protection

A central claim of this dissertation is that employment protection has a strong impact on the welfare state, independent from trade and deindustrialization. I have shown in the previous chapter that trade and deindustrialization influence policies that protect workers from risks associated with job loss. This chapter addresses how both of these factors affect the welfare state. In describing the causal pathways through which changes in trade volume and industrial structure lead to changes in social policy, I have placed skilled workers at the center of analysis. In short, exogenous factors such as increased trade and the emergence of post-industrialism affect the job security of key political actors in the modern capitalist economy—skilled workers.

Obviously, employment protection has the most important influence on job security. Though researchers have long recognized the importance of collective wage bargaining and corporatist institutions, they have given very little attention to employment protection. Rueda's studies are a rare exception. Focusing on the insiders—who are assumed to prefer employment protection over unemployment benefits or active labor market programs—he predicts that strong employment protection will have a negative effect on social spending that is specifically designed to benefit outsiders. His theory emphasizes the link between social democratic parties and insiders to explain why policies typically do not reflect the interests of outsiders.

Similarly, I emphasize the effect of employment protection on social policy, but enlarge the scope of social policy beyond labor market programs and extend the analysis by including political systems that lack a strong tradition of social democratic movements or close ties between social democratic parties and union organizations. I argue that labor market insiders can develop a strong preference for government-provided protection in broad areas such as old-age, sickness and unemployment, and they will act to pressure the government to enact policies that they prefer. In my view, Rueda's assumption that skilled and unskilled laborers will necessarily have opposing policy preferences is too rigid and static. When we consider the broader consequences of employment insecurity, it would seem more appropriate to predict that employment protection policies will be positively associated with broader social policies. The reason why labor market insiders can develop strong interests in social policy in general—not just limited to passive and active labor policy—can be understood by considering the expected consequences of losing a job. According to the skill-based perspective, skilled workers would be interested in social insurance for the same reason that they would prefer strong employment protection: because their specific skills make them subject to a potentially long spell of

unemployment or a significant decline in income in the event of job loss (Iversen & Soskice, 2001). Empirically, we are likely to find a positive association between employment protection and social insurance. If employment protection is liberalized, the political coalition that supports social protection will decline in size and power, thus leading to a contraction of the welfare state.

In some cases, however, a decrease in employment protection could lead to an expansion of social policy. A decrease in employment protection implies that the division between insiders and outsiders has become more fluid and weak. This increases the possibility that a new political coalition will form that favors changes in social policy. If pre-existing social policies are not suited to cover increased labor market risks, workers will have an incentive to demand changes in social policy. Typically, this is the case with countries that have a less developed welfare state where there is room to increase social spending. More generally, liberalization of the labor market can spur workers to demand government protection. This can be an opportunity for policy innovation and the qualitative transformation of social programs that do not assume stable employment relationships within a closed labor market.

In short, changes in employment protection will produce one of two possibilities—the outcome being determined by pre-existing institutions of social protection. On the one hand, when social protection already covers a variety of labor market risks and reaches a significant proportion of workers—as in the Western welfare states—the weakening of employment protection reduces the size and political power of skilled labor, thus destabilizing the foundation of the welfare state and making it difficult to maintain the level of social protection. The level of employment protection co-varies with the level of social spending.

On the other hand, small welfare states in the developing world tend to provide limited protection to skilled workers—a small, but privileged, group. The weakening of employment protection could become an opportunity to expand social protection by changing their preference

In this section, I have sketched out how the global economy, the growth of the service sector and employment protection shape the welfare state. The following section tests these hypotheses about the determinants of social protection around the world.

EMPIRICAL TESTS

Dependent Variable

To test the proposed arguments about the effect of employment protection, globalization and service sector employment on social policy, I use cross-national time-series data from IMF's Government Finance Statistics from 1980 to 2008. The sample includes OECD and Latin American countries, the same set of nations as in the previous chapter, and the time period was determined by the availability of data on employment protection. I operationalize each government's level of commitment to social protection as the ratio of government spending on social protection to total government spending.¹⁶ While social spending is a standard way to assess the magnitude of a government's responsiveness to social needs, I will note my reservation about using this measure before proceeding.

The most important criticism is that spending measures do not capture the political dynamics inherent in social policy; such aggregate measures cannot capture divisive aspects of welfare policies such as distributions of benefits. Since my arguments emphasize the importance

¹⁶ I have estimated the models using alternative measures of social spending. Using OECD's social expenditures as a percentage of total government expenditures and as a percentage of GDP produces more or less similar results. The correlation coefficient with IMF's data used here is 0.81 for the former and 0.66 for the latter.

of pre-existing social protection institutions in shaping current policies, the disadvantage of using this measure can be potentially severe. In interpreting the results, therefore, we need to keep this point in mind and take into consideration the design of social policy and the political context. To complement these results, I devote the following two chapters to in-depth case studies.

Explanatory Variables

The operationalization of most of the explanatory variables is identical to that in Chapter 2. To test for the effects of employment protection on broader social policies, I use three measures that were used as dependent variables in the previous chapter. The information on regular employment protection for the OECD comes from the OECD's Indicators for Employment Protection; the information for Latin America comes from Heckman and Pagés (2004). To evaluate the effect of atypical employment regulations on social policy, I rely on the OECD's indicators. Unfortunately, data on this variable are not available for Latin America.

The theory discussed in the preceding section suggests that skilled workers are particularly interested in social policies that protect them from the severe consequences of job loss. Not only do they have a strong preference for social protection, but also they tend to be well organized and can take collective action to pressure the government to enact particular policies. In other words, skilled labor has traditionally been a strong political base and advocate for the welfare state in advanced industrial economies. The weakening of employment protection represents an erosion of the support base of the modern welfare state. Therefore, changes in broader social policies will likely mirror changes in employment protection in these countries.

Emphasizing the differences in the institutions of social protection, the theory predicts rather different outcomes in less developed countries. Skilled workers in the formal sector are

traditionally protected by strong labor regulations and social insurance. If exclusive protection for them is eliminated, they are likely to change their preference from the existing policy regime premised on strong insider protection toward social policy with a more inclusive, universalistic bent, which can better protect them from new risks in a more flexible labor market. Conversely, as long as insiders are comfortably entrenched in a segregated labor market, there is less of an incentive for them to forge political alliances with outsiders or to seek changes in social policy orientation. In this type of labor market system, employment protection is likely to correlate negatively with social policy.

While previous studies have recognized that employment insecurity connects globalization and deindustrialization to social policy change, there is little empirical research that tests the impact of employment protection. I predict strong and consistent effects of this particular labor market institution, which has the most direct, immediate bearing on employment insecurity, on social spending. I expect that regular protection will be positively associated with social spending in OECD countries, and negatively associated with social spending in Latin American countries.

The logic of atypical employment regulation is different from that of regular employment protection. Since it is concerned with unskilled workers, atypical employment protection has no obvious relevance for the argument of this chapter, which focuses on skilled workers with organizational capacity. Since a liberalization of atypical employment poses greater labor market risks to unskilled workers and is likely to produce greater numbers of unskilled workers in the labor market, it is plausible that the demand for social protection will increase. However, because the very nature of atypical employment makes it harder for workers to organize, I

anticipate that changes in atypical employment protection will not have an identifiable impact on social spending.

In agreement with the established proposition in the literature, I hypothesize that globalization could have systematic effects on the welfare state, but once the effects of employment protection are accounted for, its effects will be diluted or disappear. In the earlier discussion, I argued that because international trade affects skilled workers, it will indirectly affect social policies. As per the Stolper-Samuelson theorem in international economics, skilled workers in advanced industrial economies benefit from international trade because industries intensively using high-skilled labor will expand, thereby increasing the political power of skilled laborers, who will then be better able to pressure their government into providing social protection.

The political power of skilled labor in skill-poor economies, however, will decline with international trade. Social spending will, in turn, be reduced. These contrasting predictions with regard to developed and developing countries are in line with the literature. Scholars have found that globalization tends to accompany cuts to social spending in the developing world, whereas it promotes the welfare state in Western countries. Focusing on skilled workers, I test these hypotheses controlling for the effects of employment protection and deindustrialization. Because some studies have reported that openness of capital markets adversely affects the sustainability of generous welfare states, I also control for the effects of the movement of capital across national borders.

Likewise, the growing service sector puts different pressures on developing and developed countries. In Chapter 2, I argued that deindustrialization pressures labor markets by requiring more flexible employment relationships and creating a greater number of low-skill jobs. I demonstrated that deindustrialization is negatively correlated with employment protection in developed countries. In developing countries, however, growth in service employment is primarily attributed to surplus labor in rural areas, rather than jobs shifted away from manufacturing. Employment in manufacturing in much of the developing world has in fact increased or stayed the same. Therefore, tertiarization accompanies the transition to the modern, formal economy with more workers on the payroll.¹⁷ I showed in the previous chapter that in Latin America, this change has led to stronger employment protection, while in the OECD nations, it has led to weaker protections for both regular and atypical workers. By extension, I expect that in the OECD, a greater number of service jobs will decrease social spending, whereas in Latin America it will increase spending.

Other than the three main variables, I use similar controls that were used in Chapter 2, since most of them have been identified as influential in the literature. First, a great number of scholars have argued that when Leftist parties come into power and advocate the interests of workers, they tend to spend significantly more on social protection than Centrist or Rightist parties. Furthermore, many studies argue that the welfare state under social democratic

¹⁷ There is actually a complication in this process of transitioning into a formal economy, Latin American economies have experienced an increase in informality during recent decades (OECD, 2009a, 2009b). Many economists have in fact criticized strong employment protection as its cause. The growth of the informal economy, however, is much greater in other parts of the world, notably Africa, although it is difficult to obtain an accurate estimate of informal employment (Jutting & de Laiglesia, 2009). I presume that if employment growth in the formal manufacturing and services is not large enough to absorb surplus labor, then it would result in the rise of informal employment in industries and services. The result is likely to be a transition from rural to urban areas with the informal employment status unchanged. However, it certainly represents an expansion of the labor market base for the modern welfare state.

governments is more resistant to international economic pressures. On the other hand, it has been questioned whether partisanship makes a difference in developing countries, where fiscal constraints are more severe and political parties are supposedly less accountable to voters and their constituencies. In Latin America, for example, Kaufman and Segura-Ubiergo (2001) found that partisanship has no effect on social spending. Other research goes even further to argue that Leftist governments can safely pursue fiscal austerity because they have an advantage due to their close relationship with constituents (Przeworski, Stokes, & Manin, 1999; Stokes, 2001; Weyland, Madrid, & Hunter, 2010). Therefore, the variable on government partisanship may have different signs for developed and developing countries. The data I use come from the World Bank's Database of Political Institutions (Beck et al., 2001). It is a measure on the governing party's ideological orientation with respect to economic policy. Alternatively, using Leftist parties' share of cabinet portfolios—which are only available for a small number of OECD countries—the results (not presented here) are similar to what I report below.

Power resource theories stress strong labor movements for the success of welfare states (Esping-Andersen, 1990; Korpi, 1983). Many studies on welfare states in developing countries also take this perspective to explain why the openness–bigger government nexus is hard to find. Unfortunately, the data on union density is only available for OECD countries. Therefore, for the analysis of Latin American countries, I use the size of waged and salaried workers as a proxy for the strength of skilled labor.

I also include economic variables to control for the effects of economic conditions that might elicit or suppress government spending. High levels of unemployment could increase government spending because a greater number of the population becomes dependent on unemployment benefits and other social expenditures. Therefore, I expect that high

unemployment will cause social spending to take up a greater share of total government expenditures. GDP growth rate is expected to have the opposite effect on social spending. Since improved economic conditions will simultaneously generate more revenue for the government and lessen the need for social protection, the coefficient of GDP growth rate should be negative. Government debt, which is only available for OECD countries, has been presumed to decrease social spending. However, in reality, since government deficits tend to be “sticky,” it may not produce a negative coefficient. To avoid the possibility of reverse causality and to take into account the fact that the economic and fiscal conditions of the previous year affect the current year’s social spending, I use a lag for all three economic variables. For the Latin American sample, I have included the strength of democracy and the level of economic development as additional controls. Data sources for the explanatory variables are listed at the end of the chapter.

Results

I estimate cross-sectional time-series models for OECD and Latin American countries from 1980 to 2008 to test my arguments about the relationship between employment protection and the welfare state in the context of global market integration and structural changes associated with the service sector.

As in the previous chapter, I employ OLS estimation with panel-corrected standard errors to control for panel heteroskedasticity and spatial contemporaneous autocorrelation. In addition, I assume a panel-specific autoregressive process (AR-1).

I present three tables, one for OECD countries with two employment protection variables (Regular Protection and Atypical Protection based on the OECD data (Table 3-1), one for the

global sample and the OECD sample using the Heckman and Pagés data on regular employment protection (Table 3-2) and one for Latin America (Table 3-3).

Table 3-1. The Determinants of Social Spending in the OECD
(Using the OECD data for regular and atypical employment protection variables)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 |
|------------------------------|--------------------|---------------------|---------------------|---------------------|----------------------|---------------------|
| Trade | 0.039* (0.021) | 0.036* (0.017) | 0.038* (0.022) | 0.036 (0.023) | 0.023 (0.019) | 0.034 (0.021) |
| Capital Flows | -0.01 (0.02) | -0.001 (0.021) | -0.004 (0.024) | 0.003 (0.027) | -0.049 (0.04) | -0.000 (0.039) |
| Deindustrialization | 0.55*** (0.073) | 0.603*** (0.06) | 0.582*** (0.056) | 0.59*** (0.055) | -0.009 (0.064) | -0.137* (0.07) |
| Regular Protection | 1.609** (0.797) | 1.384*** (0.473) | 1.57*** (0.408) | 1.101*** (0.417) | 3.137*** (0.7) | 3.476*** (0.737) |
| Atypical Protection | 0.407 (0.422) | 0.754* (0.394) | 0.237 (0.38) | 0.197 (0.364) | -0.93*** (0.333) | -0.532 (0.381) |
| Unemployment (t-1) | | 0.192** (0.094) | 0.087 (0.095) | 0.111 (0.094) | -0.007 (0.049) | 0.192* (0.105) |
| GDP Growth (t-1) | | -0.056 (0.058) | -0.041 (0.057) | -0.055 (0.06) | -0.231** (0.101) | -0.232** (0.095) |
| Government Debt (t-1) | | | 0.048*** (0.015) | 0.044*** (0.016) | 0.037** (0.017) | -0.000 (0.02) |
| Left Government | | | | 0.823** (0.371) | 0.33 (0.459) | 0.52 (0.432) |
| Union Density | | | | | 0.105*** (0.02) | 0.123*** (0.018) |
| GDP per capita | | | | | | 6.172** (2.63) |
| Democracy | | | | | | |
| Constant | -6.66 (6.623) | -10.836* (5.753) | -10.073* (5.912) | -9.439 (6.272) | 29.584*** (4.871) | -26.384 (26.44) |
| N | 505 | 496 | 466 | 466 | 197 | 197 |
| R² | 0.86 | 0.88 | 0.92 | 0.95 | 0.97 | 0.96 |

Note: ***p<0.001, **p<0.01, *p<0.05

OLS coefficients are reported with panel corrected standard errors in parentheses.

Table 3-2. The Determinants of Social Spending in the Global Sample and the OECD
(Using the Heckman and Pagés data for employment protection)

| | Model 1 All | Model 2 All | Model 3 All | Model 4 OECD | Model 5 OECD |
|------------------------------|------------------------------|------------------------------|------------------------------|-------------------------------|-------------------------------|
| Trade | -0.082*** (0.02) | -0.06*** (0.018) | -0.043** (0.017) | 0.047*** (0.017) | 0.063*** (0.019) |
| Capital Flows | 0.013 (0.037) | 0.042 (0.03) | 0.039 (0.032) | -0.009 (0.056) | -0.082 (0.065) |
| Deindustrialization | 0.644*** (0.107) | 0.197** (0.086) | -0.043 (0.11) | -0.051 (0.064) | -0.146** (0.071) |
| Regular | -1.458*** (0.486) | -1.236*** (0.344) | -0.337 (0.356) | 1.916*** (0.623) | 1.787** (0.746) |
| Protection | | | | | |
| Unemployment (t-1) | 0.018 (0.112) | 0.258** (0.108) | 0.282** (0.12) | -0.175* (0.104) | -0.131 (0.106) |
| GDP Growth (t-1) | -0.042 (0.055) | -0.06 (0.046) | -0.081 (0.052) | -0.257*** (0.092) | -0.378*** (0.122) |
| Government Debt (t-1) | | | | 0.045** (0.022) | 0.001 (0.02) |
| Left Government | | | 0.769 (0.577) | 0.671 (0.525) | 0.275 (0.603) |
| GDP per capita | | 6.438*** (0.798) | 9.14*** (1.259) | | |
| Democracy | | 0.182* (0.106) | 0.02 (0.149) | | |
| Salaried Workers | | | -0.147*** (0.042) | | |
| Union Density | | | | 0.097*** (0.028) | 0.107*** (0.028) |
| Atypical | | | | | -0.821** (0.36) |
| Protection | | | | | |
| Constant | 0.128 (7.266) | -37.978*** (6.533) | -37.479*** (8.878) | 33.377*** (3.942) | 43.316*** (4.391) |
| N | 429 | 429 | 319 | 192 | 163 |
| R² | 0.78 | 0.77 | 0.88 | 0.94 | 0.97 |

Note: ***p<0.001, **p<0.01, *p<0.05

OLS coefficients are reported with panel corrected standard errors in parentheses.

Table 3-3. The Determinants of Social Spending in Latin America
(Using the Heckman and Pagés data for employment protection)

| | Model 1 | Model 2 | Model 3 | Model 4 | Model 5 | Model 6 (FE) |
|----------------------------------|----------------------|-----------------------|------------------------|----------------------|-----------------------|----------------------|
| Trade | -0.073*** (0.022) | -0.078*** (0.019) | -0.072*** (0.019) | -0.001 (0.031) | -0.107*** (0.019) | 0.053 (0.032) |
| Capital Flows | 0.019 (0.043) | 0.033 (0.046) | 0.04 (0.046) | 0.044 (0.054) | 0.026 (0.048) | 0.069** (0.03) |
| Deindustrialization | 0.593*** (0.133) | 0.721*** (0.156) | 0.515*** (0.141) | 0.259* (0.145) | 0.479*** (0.122) | 0.286*** (0.107) |
| Regular Protection | 0.335 (0.418) | -0.377 (0.588) | -1.413*** (0.335) | -0.1 (0.807) | -0.962** (0.473) | -2.908*** (1.043) |
| Unemployment (t-1) | 0.11 (0.135) | 0.281** (0.127) | 0.361*** (0.138) | -0.011 (0.288) | 0.373*** (0.118) | 0.436*** (0.147) |
| GDP Growth (t-1) | 0.01 (0.067) | 0.038 (0.071) | 0.018 (0.067) | -0.032 (0.12) | 0.017 (0.077) | 0.073 (0.061) |
| Government Debt (t-1) | | | | | | |
| Left Government | | | -0.359 (1.512) | -4.584* (2.642) | -0.517 (1.497) | 1.619 (1.368) |
| GDP per capita | | 1.956 (2.187) | 5.192*** (1.865) | 0.305 (2.502) | 2.562 (2.555) | -2.311 (3.737) |
| Democracy | | 0.106 (0.125) | 0.091 (0.126) | -0.124 (0.176) | -0.021 (0.123) | 0.059 (0.116) |
| Salaried Workers | | | | -0.351*** (0.104) | | |
| Schooling | | | | | 2.734*** (0.975) | |
| Constant | -10.038 (6.531) | -32.412** (12.767) | -44.599*** (13.276) | 27.14 (18.036) | -36.166** (13.973) | 17.313 (27.076) |
| N | 126 | 126 | 124 | 87 | 124 | 124 |
| R² | 0.64 | 0.68 | 0.64 | 0.34 | 0.68 | 0.93 |

Note: ***p<0.001, **p<0.01, *p<0.05

OLS coefficients are reported with panel corrected standard errors in parentheses.

The results in Table 3-1 for high income countries strongly support my arguments about the effects of employment protection on social spending. Regardless of the inclusion of various control variables, regular employment protection has a highly significant and positive effect on social spending in all models. This supports the theory advanced in this chapter that skilled workers with job stability are the basis of the welfare state.

On the other hand, atypical employment protection does not have a statistically significant effect on government spending across all models. Model 2 reveals a significant positive effect on this variable, but this effect is insignificant when other variables are added to the equation. Increased risk in the labor market for low-skilled, temporary contract, part-time, or dispatched workers does not necessarily lead to greater protection in the form of social insurance, income transfers, etc. These types of workers are disadvantaged not only in their contractual relationships with their employers but also by their lack of a collective voice regarding social policy.

In line with my expectations, capital movements do not have a significant effect on social spending (as some theorists would posit), suggesting that globalization primarily operates through international trade. The coefficients on trade are positive and statistically significant ($p < 0.05$), but interestingly they become insignificant in models with controls for government partisanship and union density (Models 4 and 5). Moreover, trade does not have as robust of an effect on social spending as employment protection. It appears that the findings of earlier studies have exaggerated the globalization–welfare-state nexus by failing to account for crucial political contexts such as employment protection, the ideological orientation of governments and the political representation of labor. As expected, deindustrialization has a positive and significant

on social spending, except in Model 5. It is noteworthy that the number of observations is significantly reduced in Model 5 due to a smaller coverage of union density data.

Turning to economic factors, the size of government debt has a statistically significant and positive association with social spending. I have considered two explanations of this relationship: 1) government debt inhibits politicians' ability to increase spending on welfare programs, or 2) governments that spend more on social protection tend to accrue long-standing debts. It appears that empirical evidence supports the second scenario. Unemployment and GDP growth do not seem to have consistently significant effects on social spending.

Table 3-2 has different models that test the hypotheses with the global sample (Models 1, 2 and 3), which includes both the OECD and Latin America, and the OECD sample (Models 4 and 5) for the purpose of comparison. Since the Heckman and Pagés data do not provide information on atypical employment, all the models except Model 5 include only the regular protection measure. Model 5 was estimated with atypical employment protection from the OECD data.

First of all, comparing Models 4 and 5 with the results from Table 3-1 reveals that employment protection still has a highly significant and positive effect on social spending even when we employ an alternative source of data for employment protection. Trade also registers significant and positive effects as in Table 3-1. However, the results for deindustrialization do not conform to the pattern in Table 3-1. In Model 4 there is an insignificant negative effect on social spending; in Model 5, the negative effect is statistically significant. We saw in Table 3-1, too, that when the union organization variable is added, deindustrialization is negative and insignificant. The effects of deindustrialization, therefore, do not seem as robust as are generally

assumed. The significant and positive coefficients on union density in both tables indicate that organized labor can effectively pressure the government to provide social protection.

Models 1, 2 and 3 show the results for the entire sample encompassing both Latin America and the OECD to give a sense of divergence between the two groups. Each has a different set of control variables, with government debt and union density dropped from estimation due to the lack of information for Latin America. Most importantly, trade and employment protection appear to have different effects as shown in its changed signs on the coefficients.

The differences between high income OECD members and the Latin America become clearer when we look at Table 3-3. First, employment protection seems to have a negative relationship with social spending in Latin America unlike in the OECD countries. Substantively speaking, this means that a decrease by one standard deviation in employment protection leads to an increase in social spending as a share of total government expenditures by 6.5%.¹⁸ Whereas in the developed world, weakening employment protection accompanies cuts to social spending, it leads Latin American governments to spend more on social programs. This interesting finding seems related to recent events in the region. A number of studies report that many countries in the region have carried out welfare reforms, and characterize those reforms as attempts to broaden the coverage of social protection. The political forces driving the shift are still under debate. The results from this analysis suggests that growing labor market risks for formerly secure workers motivate them to seek social policy changes to reduce their new vulnerability.

Turning to the effects of globalization, we find negative effects of trade on social spending. Although statistically significant, the magnitude of its impact is much smaller than

¹⁸ This and following calculations of marginal effects are based on Model 3 in Table 3-3.

that of employment protection. A decrease in imports and exports as a percentage of GDP by one standard deviation would lead to about 3% growth in spending on social protection as a percentage of the total budget. This finding confirms the results of previous research on globalization's effects on Latin American welfare states. Capital movements do not seem to be significantly related to changes in social policy.

All models support my argument about the relationship between the service sector and Latin America's welfare states. The deindustrialization variable is highly significant ($p < 0.001$), and its predicted impact is a little weaker in magnitude than that of employment protection (about 6%). As expected, growing services are correlated with an increase in social expenditures. I interpret these results as evidence for the theory that the concurrent transfer of domestic labor from the agricultural sector to the industrial and service sectors increases the demand for social protection, enlarging the political base of collective action to change the orientation of social policies.

Government partisanship does not seem to have much of an impact on social spending. When a measure of executive partisanship is used in place of the governing party's policy orientation, the effects are still insignificant (results not shown). This result also confirms earlier findings that partisanship affects social policies in different ways in Latin America versus advanced democracies. In addition, neither national income nor the robustness of democratic institutions appears to have much of an impact on welfare spending in Latin America. The last column presents a model that includes country fixed effects to check the robustness of my findings. Most importantly, the coefficient on employment protection remains significant and negative. Other variables perform similarly, giving us greater confidence in the empirical results presented here.

To sum up the findings of this section, employment protection emerges as the strongest, most consistent predictor of social spending across all countries in the sample. As hypothesized, I find that international economic factors—especially trade—and internal economic change play a weaker role in shaping social policy. In addition, empirical evidence in this chapter suggests that welfare states in the developing world respond to these factors quite differently than welfare states in more advanced economies. I have provided an explanation of different political dynamics that vary according to skilled labor's employment insecurity. A series of direct tests for the impact of employment insecurity using measures of employment protection institutions strongly support my hypotheses.

LIMITATIONS AND CONCLUDING REMARKS

While the statistical tests in this chapter support my arguments about the importance of employment protection as a determinant of social policy, there could be some concerns and objections regarding the validity of the statistical evidence I have provided.

First, some could argue that it would be more appropriate to use more disaggregated measures because welfare programs such as unemployment benefits, active labor market policy, healthcare, pensions or income support for the poor might respond differently to changes in the main independent variables. Indeed, some studies have shown that there is substantial cross-national variation in the budgetary priority among these programs, and some programs are more sensitive to economic conditions than others. Disaggregating social expenditures into different categories might reveal politically salient patterns. But the primary motivation of this study on

employment protection is to find initial evidence that this important labor market institution—thus far overlooked in the literature, but most immediately relevant for employment insecurity—does have crucial effects on the overall shape of the welfare state and governments’ commitment to providing social protection for citizens. I have found such evidence and empirical support for my argument. Having established the relevance of employment protection for the politics of social policy, I leave the analysis of disaggregated data for future research projects.

On the other hand, using the “level” of social spending for the dependent variable could have limitations in capturing qualitatively more crucial aspects of social policy change. I have emphasized that pre-existing social protections constrain social policy change, arguing that differences in pre-existing social policies explain much of the differences in social spending in the OECD and Latin America. Unfortunately, the level of spending does not appropriately capture this dynamic. In a way, this could mean a “hard” test if we are to find a statistical relationship based on this imperfect measure. Despite the fact that the spending measure has this intrinsic weakness, my analysis did find a robust relationship between employment protection and social spending. To provide a more nuanced explanation that captures the hypothesized causal relationship in a way not revealed in numbers, I adopt a case study method in the next two chapters.

A second limitation is that the Latin American sample does not contain the union density variable. Given that welfare state scholars, particularly from the power resources perspective, have stressed the power of trade unions in shaping the welfare state, not controlling for this factor might generate misleading results, one of which is an overstatement of the true effect of employment protection. Indeed, the coefficients on union density in Table 3-1 and 3-2 are statistically significant and positive. Yet the coefficients on employment protection remain

significant with the same sign in those models. When I use the average years of schooling as a proxy for labor strength for the Latin American sample, Table 3-3 shows that the effect of employment protection on social spending remains the same. Previous studies of developing countries in comparative political economy in general suffer from a dearth of reliable data on labor movements. Consequently, scholars have relied on alternative measures that are hypothesized to approximate labor's potential power, such as years of schooling and the ratio of skilled labor to unskilled and surplus labor. None is entirely satisfactory. Therefore, we need to exercise caution in drawing conclusions from statistical results based on imperfect proxies.

A third possible criticism is that statistical analyses of this chapter, like most econometric studies, only prove correlation, not causation. As such, we must be cautious in using statistical analyses as definitive evidence for theory. As a remedy, the following two chapters will use case studies to provide detailed accounts of the political processes that the statistical correlations in this and previous chapter suggest.

Finally, the results presented in this chapter might come under suspicion due to the possibility of Latin American exceptionalism. Although using data on Latin America has substantially broadened the theoretical and empirical scope of the literature, it may be difficult to generalize my conclusions to other parts of the world. Admittedly, Latin America has its idiosyncratic political and socio-economic legacies. To assess the robustness of the proposed relationships between employment protection, globalization and deindustrialization, I carry out an in-depth analysis of a completely different case—South Korea—to demonstrate the logic behind the politics of employment protection and changes in social policy.

Appendix 3-1. Data Sources

Dependent Variable: Social Spending (% of Total Government Spending)

IMF, Government Finance Statistics Yearbook (various years)

Regular Employment Protection/ Atypical Employment Protection (OECD)

OECD Indicators for Employment Protection, Version 2, Updated 2010-09-24,
Accessed at <http://www.oecd.org/employment/protection>

Regular Employment Protection (Latin America)

Heckman, James J. & Pagés, Carmen (2004), Law and employment
Data obtained from authors through personal communication.

Trade

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

Capital Flows

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

Unemployment

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

GDP Growth

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

GDP Per Capita

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

Left Government

Beck et al. (2001), Database of Political Institutions, Updated Dec 2010,
Accessed at <http://go.worldbank.org/2EAGGLRZ40>

Union Density

Golden et al., Union Centralization among Advanced Industrial Societies: Update to 2000,
Version 4.1. Updated 2009-07-01,
Accessed at <http://dvn.iq.harvard.edu/dvn/>

Democracy

Polity IV Project: Political Regime Characteristics and Transitions, 1800-2010. Version 2010,
Accessed at <http://www.systemicpeace.org/polity/polity4.htm>

Schooling

Barro-Lee Educational Attainment Dataset, Updated 2011,
Accessed at <http://www.barrolee.com/>

Salaried Workers

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

Government Debt

World Bank, World Development Indicators Database
Accessed at <http://data.worldbank.org/data-catalog/world-development-indicators>

CHAPTER FOUR

The Politics of Employment Protection in Korea, 1980-2008

In this chapter, I examine how South Korea's relationship with the global market and the internal transformation of its economic structure have shaped the political debate regarding its employment protection policies during the last three decades. With its democratic transition in 1987, reforming labor laws became a central topic of political debate. Within a decade, laws concerning employment protection emerged as one of the thorniest issues—a debate which is still far from being resolved. During the same period, Korea went through tumultuous changes not only in the political sphere—culminating in its successful transition to democracy in 1987—but also in the socioeconomic sphere. Although its GDP per capita was barely over a quarter of the OECD average in 1980, the country was able to join the OECD only in less than two decades. Following the Asian financial crisis in the late 1990s, however, its economy experienced a dramatic setback. But it rebounded quickly and now stands as the world's 12th largest economy. While Korea has grown into a global industrial powerhouse, its economy faces some serious structural challenges. The population is ageing at an unprecedented rate, and employment in its industrial sector is rapidly and prematurely shifting toward the service economy. Facing greater competition with its rapidly industrializing neighbors, Korea's manufacturing industries are having difficulty maintaining competitiveness in the export market.

The conflict over employment protection at the levels of national politics and industrial relations has developed against this backdrop, making Korea an ideal case to help us understand the long-term process through which domestic economic structures and political coalitions interact with the global economy to produce distinct policy equilibria concerning employment

protection. Furthermore, negotiations over labor reform among the government, labor unions and the business community unfolded amidst negotiations over the Korean welfare state. For the purposes of this dissertation project, therefore, Korea presents a unique opportunity to examine my core thesis about the relationship between employment insecurity and social protection.

The remainder of the chapter proceeds as follows. The first section discusses the methodological strategy of this and next chapters. Reviewing the limitations of statistical analysis, it explains why Korea is a suitable case for in-depth analysis. The next two sections address Korea's experience over the last three decades in terms of my main independent variables—trade openness and deindustrialization. Going beyond an oversimplified operationalization of the two variables, I pay close attention to important changes that a simple measure of trade openness and the size of the service sector are unable to reveal. Specifically, I focus the effects of globalization on changes in the sectoral composition and skill intensity of Korea's exports, 2) To understand the role of deindustrialization in labor politics, I investigate change in the industrial structure, productivity gaps between its different service industries and patterns of inter-industry labor movement. I derive expectations of outcomes for employment protection from the assessment of the two independent variables and then consider the mediating effects of Korea's political history and pre-existing social protection policies, which could potentially moderate or even counteract the effects of the main independent variables. I then compare my proposed hypotheses with the actual outcomes observed in Korea, examining the evolution of politics concerning employment protection. The concluding section provides a summary of the findings and discusses the political implications of social protection.

METHODOLOGICAL STRATEGY

This case study is intended to complement Chapter 2 where I used large-N analysis to demonstrate the relationship between macro variables. Cross-national time-series data analysis enables researchers to confirm the existence and pattern of systematic relationships between variables of interest across different contexts. Chapter 2 provides the first systematic evidence linking the global economy, service employment and job protection. However, there are obvious limitations to using statistical evidence.

First of all, it can only establish correlations between independent and dependent variables, not causation. To establish a causal relationship, we need “relevant, verifiable causal stories resting in differing chains of cause–effect relations,” which can be acquired by tracing cases over time (Tilly, 1997).¹⁹ The preceding chapters have shown that the relationships among globalization, deindustrialization and employment protection institutions depend on specific contexts, such as the ratio of skilled to unskilled workers. . I have hypothesized that pre-existing social protection policies and differing political interests of skilled and unskilled labor offer additional context. Given the difficulty of capturing statistical interactions among globalization, tertiarization and domestic variables, an in-depth case study is a useful and appropriate way to keep track of complex causal pathway and to assess the validity of my argument premised on the interaction between variables.²⁰

Second, cross-national time-series analysis constrains researchers to a limited range of options for operationalizing variables. For instance, globalization is a complex process of engaging with the international economy. Changes in types of products exported and imported

¹⁹ Process tracing is a method, well-suited to testing theories in a world marked by multiple interaction effects, where it is difficult to explain outcomes in terms of two or three independent variables (Hall, 2003).

²⁰ Statistical analysis can incorporate simple interactions. Interpreting more complex interaction effects, however, is trickier and in many cases not highly informative. See Braumoeller (2004).

may have much greater impacts on the labor market and the politics of employment protection than overall openness of the economy as measured by gross trade volume.

Similarly, deindustrialization can produce markedly distinct outcomes in each country. Because the service sector contains highly diversified industries, low-productivity industries such as food service and small-scale retail will experience different changes than high-productivity industries such as financial services. The timing and speed of the structural shift also matters; some countries, particularly in the developing world, experience a concomitant growth of manufacturing and services whereas early industrializers witness employment primarily shifting from the manufacturing to the tertiary sector. A simple measure of total service employment cannot adequately capture the dynamics and the qualitatively different nature of this process. To overcome these limitations, in Chapter 2, I divided the sample into two sub-groups and demonstrated that the distinction based on the skill distribution of the economy indeed matters. Qualitative analysis can further illuminate how globalization and deindustrialization operate differently in different contexts.

Third, some of the limitations of statistical analysis come from the limited data on the dependent variables. The two datasets employed in this dissertation are the most extensive and innovative; the Heckman and Pagés data are particularly useful in broadening the scope of theory and analysis to Latin America. Unfortunately, their dataset leaves out some important aspects of employment protection such as regulations on atypical employment and collective dismissal. Atypical employment has grown in importance not only in many OECD countries but also in Latin America. The balance between regular and atypical employment protection exhibits distinct national patterns and has generated important distributional consequences across labor markets. The overall tendency for many OECD countries has been to leave the former intact and

to liberalize the latter, a strategy that seems to contribute to labor market inequality (OECD, 2004). Argentina, among others in the region, also experimented with liberalizing atypical employment following the Spanish model, but when the number of atypical workers soared, the Argentinian government reversed its policy, just like Spain did under similar circumstances (Heckman & Pagés, 2004). In Korea, too, atypical employment and labor market duality have become major concerns in recent policy discussions (Grubb, Lee, & Tergeist, 2007).

Similarly, changing rules regarding collective dismissals can be socially disruptive due to the impact on the political power of labor unions and industrial relations. As we will see, it produced the country-wide strikes that were the largest in South Korean history. Despite its importance, regulatory strictness regarding collective dismissals is not incorporated into the Heckman and Pagés data and is only available for a single year in the OECD dataset. More fundamentally, both datasets, as is usually the case, tend to oversimplify complicated codes of each country to make them comparable and quantifiable. What a simple numeric value means for actual distributional conflicts is, therefore, best understood in qualitative contexts.

Another limitation of the data is concerned with whether Latin America is representative of the developing world more generally. Many countries in Latin America, as pointed out earlier, have developed a welfare system geared toward employees in the formal sector with strong employment protection and occupationally-based social insurance systems. We might draw an erroneous conclusion about the developing world by exclusively relying on Latin America's experience.

Taken together, this discussion points to the need for an in-depth case study that can show the proposed causal process that varies with levels of skill distribution in the economy. An

ideal candidate for the “within-case analysis”²¹ would 1) have considerable variation in independent variables over time to allow us to observe their effects on outcome variables, 2) be able to illustrate the different causal pathways for developed and developing countries, and 3) not be subject to the idiosyncrasies of Latin American countries.

By these three criteria, Korea is a superb case. I stressed two independent variables in the statistical analysis of employment protection—globalization and the service sector—and Korea satisfies the first condition with sufficiently great variation of both variables. The fact that both exports and imports have risen constantly indicates Korea’s growing dependence on trade. Not only has the trade volume increased greatly from 1980 to 2008, but export and import profiles have shifted considerably.

With respect to the second independent variable—the service sector—Korea’s industrial and employment structure was also transformed dramatically. It started off with a still sizable primary sector in 1980, with employment being a third of the total labor force, but by 2008, employment in manufacturing and the tertiary industry overwhelmed that of the primary sector in terms of employment and value-added. Great variations on these two major independent variables, along with the salience of labor market reform in national politics during this period, make Korea an important case with which I can test the causal relationship between changes in economic structure and employment protection policy.

Furthermore, Korea is a rare case that meets the second and third conditions. It went from developing country status in 1980—with its GDP per capita similar to that of Brazil—to being an OECD member comparable to Spain in 2008—four times richer than Brazil. The economic development, of course, accompanied a shift toward higher-technology industries and a marked

²¹ The difference between process-tracing and within-case analysis is explained in George and Bennett (2005). But as done in this dissertation, they are often combined.

improvement in the skill profile of the labor force. This temporal variation increases the number of observations and allows me to assess the hypothesis about different causal processes for high- and low-income economies through within-case methods. In addition, this strategy helps controlling for factors specific to Latin America, adding confidence to my argument about the developing world proposed in the previous chapters.

GLOBALIZATION IN KOREA

In this section, I will discuss Korea's participation in the global market. During this period, Korea became more integrated with the international economy, not only in terms of trade, but also in terms of its participation in the global networks of production and capital market openness. This section will focus on the effects of international trade on the Korean economy and show its importance in determining labor market insecurity. Although I do not spell out a cut-off year that represents its transition from “developing” to “developed,” I will provide quantitative evidence that such a transition did take place during this period. Korea in 2008 is a very different country than it was in 1980. Korea specialists in social sciences tend to divide the period into three sub-periods marked by two crucial events—democratization in 1987 and the financial crisis during 1997-1998. Whereas the importance of these two events is evident, the analytical distinction that identifies Korea either with developing or developed countries can be located sometime in the 1990s. A rough indicator of the shift is, of course, the level of economic development. Korea reached the long aspired goal of \$10000 GDP per capita in 1996 and joined the OECD to mark its success. Substantively, the process of economic growth meant a great

magnitude of internal change in the Korean economy which suggests a different logic of connecting the international economy to labor market protection.

The authoritarian government of Chun Doo Hwan inherited an export-led, heavy manufacturing-based developmental strategy from the previous government of Park Chung Hee when it came to power in 1980. While the entire economy was initially, as under Park's rule, geared toward maximizing exports with substantial restrictions on imports for domestic consumption, trade policy gradually moved toward liberalization over time. Korea's economic openness can be confirmed with various measures. First, both exports and imports have grown enormously in volume. Accordingly, the contribution of exports to the national income has expanded from 32% to 53% of GDP between 1980 and 2008. From a policy point of view, most of the remaining restrictions on imports were removed as indicated by a composite index of import liberalization rising from 65.9% in 1980 to over 90% in 1999 (Koh, 2008). Given the theoretical framework suggested in this dissertation, the growth of international trade could have strengthened high-skilled workers or have had the opposite effect. The increase in total trade volume, however, masks sectoral information that could help us decide between the two possibilities. Leaving the analysis of the service sector to the next section, I here consider manufacturing only, which is most pertinent to trade.

I demonstrate the transformation of Korea's export industries in three steps. First, I show that the Korean economy has become more technology-based. Next, this economy-wide transformation is shown to have accompanied change in Korea's export profile. Korea's comparative advantage has shifted toward skill-intensive production, and the skill distribution among its labor force has also become increasingly skewed toward high-skilled workers. Lastly, I present evidence that the shift from labor-intensive, low-skill industries to high-skill industries

strengthened skilled workers in the dominant export industries, making them a powerful advocate for employment protection.

Change in Export Profile

First, I will look at change in Korea's export profile. To detect changes in export industries, it is useful to distinguish industries by skills and technologies required to produce goods. Table 4-1 groups industries into High, Medium-High, Medium-Low, and Low technology industries and presents disaggregated information on industries within each of the four categories in order of skill intensity. It shows how the composition of Korea's exports changed between 1992 and 2004 in terms of each industry's share in total exports and comparative advantage. It is evident that exports of goods using high and medium-high technology expanded greatly while low and medium-low technology producers became less successful in the export markets.

Table 4-1. Change in Korea's Exports: Sectoral Share and Revealed Comparative Advantage

| | Share (%) | | | Revealed Comparative Advantage | | |
|--|-------------|-------------|--------------|--------------------------------|-------------|--------------|
| | 1992 | 2004 | Change | 1992 | 2004 | Change |
| <i>Manufacturing</i> | | | | | | |
| <i>High technology and ICT* products</i> | 25.8 | 39.2 | +13.4 | 1.33 | 1.63 | +0.30 |
| Aircraft and spacecraft | 0.9 | 0.2 | -0.7 | 0.28 | 0.11 | -0.17 |
| Pharmaceuticals | 0.4 | 0.3 | -0.1 | 0.26 | 0.11 | -0.15 |
| Computers and office products | 4.0 | 9.0 | +5.0 | 0.91 | 1.73 | +0.82 |
| Semiconductors and electronic valves | 10.6 | 11.0 | +0.4 | 3.62 | 2.30 | -1.32 |
| Radio, TV and communications equipment | 8.5 | 15.3 | +6.8 | 2.31 | 3.19 | +0.88 |
| Medical, precision and optical instruments | 1.3 | 2.4 | +1.1 | 0.39 | 0.65 | +0.26 |
| <i>Medium-high technology</i> | 20.4 | 35.2 | +14.8 | 0.60 | 1.10 | +0.50 |
| Electrical machinery | 2.2 | 3.2 | +1.0 | 0.59 | 0.77 | +0.18 |
| Chemical products | 7.2 | 10.2 | +3.0 | 0.99 | 1.26 | +0.27 |
| Motor vehicles, trailers and semi-trailers | 5.8 | 13.6 | +7.8 | 0.50 | 1.33 | +0.83 |
| Other transport equipment | 0.2 | 0.2 | 0 | 0.35 | 0.29 | -0.06 |
| Home appliance and machinery equipment | 5.0 | 8.0 | +3.0 | 0.46 | 0.91 | +0.45 |
| <i>Medium-low technology</i> | 18.7 | 17.3 | -1.4 | 1.45 | 1.43 | -0.02 |
| Shipbuilding and repairing | 5.4 | 6.4 | 1.0 | 5.77 | 8.45 | +2.68 |
| Coke and petroleum products | 0.2 | 0.1 | -0.1 | 0.30 | 0.20 | -0.10 |
| Rubber and plastic products | 2.8 | 2.4 | -0.4 | 1.15 | 0.96 | -0.19 |
| Non-metallic mineral products | 0.8 | 0.6 | -0.2 | 0.52 | 0.44 | -0.08 |
| Basic and fabricated metal products | 9.7 | 7.7 | -2.0 | 1.30 | 1.12 | -0.08 |
| <i>Low technology</i> | 31.6 | 8.8 | -22.8 | 1.44 | 0.49 | -0.95 |
| Textile, apparel and footwear | 25.4 | 6.1 | -19.3 | 2.99 | 0.92 | -2.07 |
| Food, beverages and tobacco | 2.1 | 1.1 | -1.0 | 0.35 | 0.20 | -0.15 |
| Wood and paper products | 1.0 | 0.6 | -0.4 | 0.22 | 0.19 | -0.03 |
| Other misc. manufacturing products | 3.2 | 1.0 | -2.2 | 1.03 | 0.35 | -0.68 |
| <i>Non-manufacturing</i> | 1.5 | 0.4 | -1.1 | 0.18 | 0.03 | -0.15 |

*ICT: information and communication technology

Source: Kim et al. (2006), *Trade, Investment and Economic Interdependence between South Korea and China*, p.381, and author's calculation based on their data.

By 2004, high-skill industries contained the most important Korean export: radio, TV and communications equipment, motor vehicles and trailers, and semiconductors and electronic valves are the top three export categories. The ranking based on revealed comparative advantage is slightly different, but all in all provides a similar picture. According to the table, Korea became more competitive and specialized in shipbuilding, TV, semiconductors, computers and the like. Since this table only compares 1992 and 2004, I provide further information that dates back to the 1980s to examine the longer-term trend.

Table 4-2 presents a comparison of different export categories. The most drastic change took place between 1990 and 1995 in the textile, semiconductor and automobile industries, but the industrial decline in the textile industry and growth of semiconductor and automobile industries were already set in motion in the 1980s.

Table 4-2. Korea's Sectoral Composition in Exports (%)

| | 1980 | 1985 | 1990 | 1995 | 2000 |
|--|-------|-------|-------|-------|-------|
| Food Products, Beverages and Tobacco | 2.56 | 1.83 | 2.21 | 1.62 | 1.29 |
| Textiles, Textile Products, Leather and Footwear | 23.87 | 21.71 | 24.97 | 14.35 | 9.73 |
| Pulp, Paper, Paper Products, Printing and Publishing | 0.74 | 0.47 | 0.64 | 0.88 | 0.99 |
| Chemicals and Chemical Products | 9.33 | 9.25 | 6.67 | 8.85 | 8.42 |
| Fuel Products | 0.55 | 3.15 | 1.57 | 2.09 | 5.09 |
| Other Non-Metallic Mineral Products | 1.93 | 0.96 | 0.78 | 0.42 | 0.44 |
| Basic Metals | 8.05 | 5.76 | 5.42 | 4.75 | 4.23 |
| Metal Products | 4.30 | 5.17 | 3.28 | 2.30 | 1.46 |
| Machinery | 1.09 | 0.90 | 2.42 | 3.89 | 3.92 |
| Semiconductors | 2.21 | 2.97 | 5.81 | 13.58 | 12.00 |
| Electrical Machinery and Apparatus | 2.44 | 2.71 | 4.07 | 4.72 | 4.61 |
| IT Products | 4.82 | 7.08 | 9.90 | 8.04 | 10.46 |
| Home Appliances | 0.26 | 0.86 | 1.04 | 1.13 | 1.14 |
| Motor Vehicles and Trailers | 0.62 | 2.21 | 2.79 | 6.72 | 7.15 |
| Other Transport Equipment | 3.33 | 6.42 | 3.23 | 4.32 | 5.82 |
| Precision, Medical and Optical Instruments | 1.23 | 0.98 | 1.06 | 1.13 | 3.28 |
| Other Misc. Manufacturing Products | 6.16 | 5.06 | 3.60 | 1.77 | 1.30 |

Source: KDI (2003), *Comprehensive Study of Korea's Industrial Competitiveness: Statistics*, p. 65

Table 4-3. Korea's Sectoral Trade Specification Index (TSI)

| | 1980 | 1985 | 1990 | 1995 | 2000 |
|--|-------|-------|-------|-------|-------|
| Food Products, Beverages and Tobacco | -0.40 | -0.22 | -0.34 | -0.40 | -0.40 |
| Textiles, Textile Products, Leather and Footwear | 0.75 | 0.72 | 0.70 | 0.49 | 0.54 |
| Pulp, Paper, Paper Products, Printing and Publishing | -0.46 | -0.56 | -0.54 | -0.44 | -0.19 |
| Chemicals and Chemical Products | -0.04 | -0.05 | -0.29 | -0.07 | 0.06 |
| Fuel Products | -0.80 | -0.12 | -0.48 | -0.34 | 0.10 |
| Non-Metallic Mineral Products | 0.51 | -0.01 | -0.23 | -0.42 | -0.21 |
| Basic Metals | -0.02 | -0.07 | -0.23 | -0.32 | -0.19 |
| Metal Products | 0.47 | 0.58 | 0.49 | 0.33 | 0.34 |
| Machinery | -0.85 | -0.83 | -0.69 | -0.55 | -0.25 |
| Semiconductors | -0.01 | -0.03 | 0.04 | 0.41 | 0.12 |
| Electrical Machinery and Apparatus | -0.25 | -0.24 | -0.05 | 0.03 | 0.01 |
| IT Products | 0.20 | 0.34 | 0.49 | 0.35 | 0.37 |
| Home Appliances | 0.27 | 0.83 | 0.54 | 0.68 | 0.74 |
| Motor Vehicles and Trailers | -0.17 | 0.41 | 0.31 | 0.57 | 0.75 |
| Other Transport Equipment | -0.25 | 0.47 | 0.14 | 0.18 | 0.47 |
| Precision, Medical and Optical Instrument | -0.19 | -0.41 | -0.51 | -0.59 | -0.11 |
| Other Misc. Manufacturing Products | 0.78 | 0.72 | 0.39 | -0.07 | 0.04 |

Source: KDI (2003), *Comprehensive Study of Korea's Industrial Competitiveness: Statistics*, p. 71

Another measure of the degree of specialization or competitiveness of an industry is the trade specification index (TSI), alternatively called the “competitiveness index.” Table 4-3 presents each industry's TSI. As the number approaches one, this indicates that an industry is more specialized in exports; as it approaches negative one, this implies increasing specialization in imports. We can get a sense of trade dependence of various industries from this table. For example, between 1980 and 1985 car manufacturing shifted from imports to exports as indicated by a change in sign, and by 2000 the automotive manufacturing became the most export-dependent of all industries. The table also shows that in 1980 the labor-intensive textile and apparel industry, with a score of 0.75, was the most significant export, but declined continuously thereafter through 2000, giving way to other, more skill-intensive exports. The biggest decline

took place between 1990 and 1995. In sum, from 1980 to 200, Korea transitioned from a low-skilled, labor-intensive economy to one characterized by higher-skill industries.

Consequences for the Labor Market

What does the change in Korea's industrial structure and export profile mean for its *labor market*? There were two important corollary developments in the labor market. First, whereas the average level of skill increased significantly, the demand for skilled workers increased much faster, leading to a shortage in the supply of skilled labor. Second, as the export industry became more specialized in products that were more skill-intensive, skilled workers grew more powerful in these industries.

Korea has substantially elevated the skill level of its labor force during the three decades. Analytically, it is helpful to distinguish two types of skills—general skills and industry- or firm-specific skills. General skills, usually acquired through schooling, are useful for all sorts of occupations and are thus portable from job to job. Specific skills, on the other hand, are only valuable in performing a certain type of task and are not easily transferable beyond the specific job or industry where they are used. Workers tend to accrue specific skills with job tenure. A common proxy for general skill levels is the educational attainment. With respect to educational progress, Korea is a stellar performer. Table 4-4 gives a sense of the swift progress that Korea has made since 1970. Although primary education was already a universal phenomenon in 1980, only 20% of the relevant age group were enrolled in high schools. Impressively, by 2007 upper secondary education became the norm, and about 70% of the relevant age cohort entering universities. The extent of Korea's investment in education becomes more evident when compared to other OECD countries. Table 4-5 ranks countries according to the ratio of

population educated at tertiary and secondary levels by age group as of 2009. The difference between the two most economically active age groups shows that Korean workers are becoming highly educated, surpassing every other advanced industrial economy. The percentage of people with post-secondary education was 44% for the older group but it arose to 63% among the younger group, placing Korea at the top of the list.

By these measures, it is clear that Korea now has an abundant reserve of highly educated workers and with a skill profile that is potentially heavily skewed toward general skills. Increased levels of educational attainment are obviously closely related to the change in Korea's industrial structure and comparative advantage. Beginning in the 1980s and continuing until the economy started to experience a labor shortage in booming manufacturing, low-skilled, labor-intensive manufacturers were able to compete in the international market by taking advantage of the abundance of relatively less educated, cheap laborers from rural areas. The transition to higher skill industries in which the Korean economy now has a comparative advantage, of course, was undergirded by well-educated workers equipped to perform skill-intensive tasks.

Table 4-4. Enrolment rates for relevant age cohorts in Korea

| Year | Primary (%) | Lower Secondary (%) | Upper Secondary (%) | Tertiary (%) |
|------|---------------------|---------------------|---------------------|--------------|
| 1970 | 92.0 | 36.6 | 20.3 | 5.4 |
| 1980 | 97.7 | 73.3 | 48.8 | 11.4 |
| 1990 | 100.5 ²² | 91.6 | 79.4 | 23.6 |
| 2000 | 97.2 | 95.0 | 89.4 | 52.5 |
| 2007 | 99.3 | 96.0 | 91.3 | 69.4 |

Source: Young Sun Koh (2008), *Korea's Economic Growth and the Role of the Government: Past, Present and Future*, p.308

Table 4-5. Educational Attainment among the OECD Countries

| Ranking | Tertiary Education | | Upper Secondary Education and above | |
|---------|--------------------------|---------------|-------------------------------------|---|
| | Age 25-34 (%) | Age 35-44 (%) | Age 25-34 (%) | Age 35-44 (%) |
| 1 | Korea (63) | Canada (56) | Korea (98) | Korea, Czech Republic, Slovak Republic (94) |
| 2 | Canada, Japan (56) | Japan (49) | Slovak Republic (95) | Estonia, Poland (92) |
| 3 | Ireland (48) | Israel (47) | Czech Republic (94) | Canada, Sweden (91) |
| 4 | New Zealand, Norway (47) | Korea (44) | Poland, Slovenia (93) | Finland, Switzerland, US (88) |
| 5 | Australia, UK (45) | US (43) | Canada (92) | Germany (87) |

Source: OECD (2011), *Education at a Glance: OECD Indicators*, p.39 and 40.

²² This is probably due to early enrollment of children.

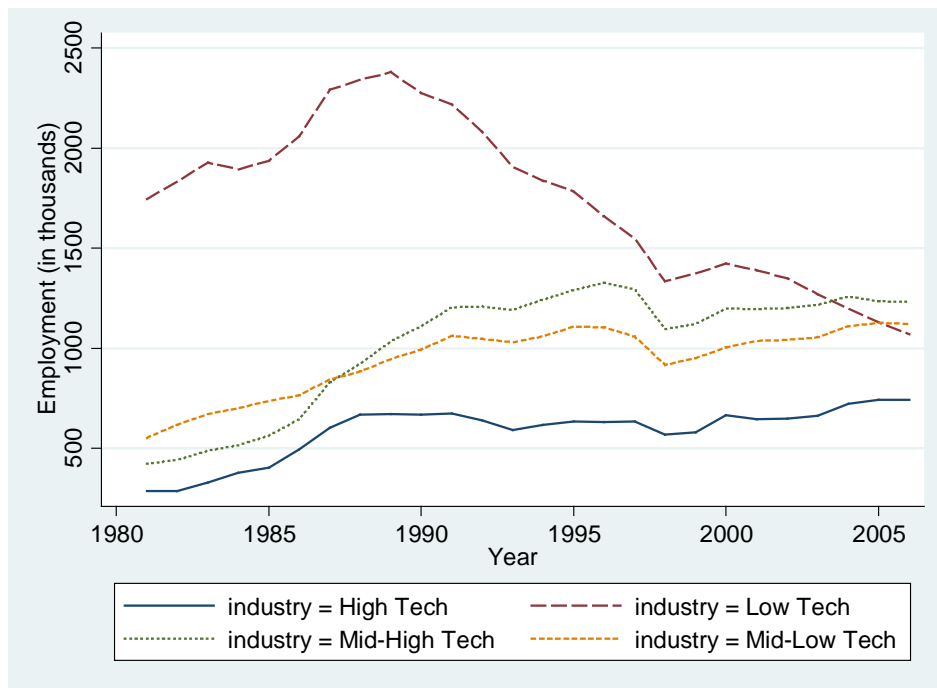
Having discussed general skills, I move on to examine trends in the distribution of *specific skills* in order to get a complete picture of Korea's skill system. Estevez-Abe et al. (2001) suggest a typology of industrial economies according to the relative importance of general and specific skills. They argue that the observed emphasis on formal education implies an economy's specialization in general skills-based production. If education levels are any indication, Korea is definitely on track to become a general skills-based production system. Sung Jae Cho (2008a) argues along this line that the rapid expansion and strength of the information technology industry—an industry that typically requires a level of technological knowledge that can only be attained at the university level or beyond—has driven the growth of highly educated, skilled workers in Korea and, as a result, a general skills system. However, the national typology that fits an entire economy into one category or another oversimplifies the pattern of skill distribution among diverse industries in each country, not to mention how such typologies might change over time due to fluctuations in the composition of industries and in the type of skills that are in demand. Except for a handful of stereotypical cases, most countries are difficult to categorize as anything but mixed-cases. Since the rise of the IT industry is a recent phenomenon and explains only a small portion of Korea's industrial characteristics, we need to investigate how the specific skills of its labor force have evolved.

There are a number of ways to measure the level of industry- and firm-specific skills, but for our purposes, the most simple and straightforward measure is the proportion of employment in different industries. If the share of employment in high skill-intensive manufacturing has increased, it may well signify specialization of workers' skills. Figure 4-1 summarizes the relative size—in terms of employment—of four manufacturing industries that require different skills.

Note the prominent decline in low-skill industries, and the rise of high-skill industries. Labor-intensive industries such as textiles, apparel and footwear have contracted to half their initial size while high-skill industries producing semiconductors, chemical products, motor vehicles and the like have become a key part of the Korean economy in terms of employment. Behind this transition to high-skill industries was the Korean government's initiative to promote heavy manufacturing. A big push for capital- and skill-intensive production such as metal, shipbuilding, and chemicals was started in 1973, and an important part of the plan was to reorganize the labor market to that purpose. To cope with a growing shortage of skilled workers, the government introduced a system of mandatory vocational training programs which required firms either to provide their employees with in-house vocational training or to contribute to the government's vocational training fund. This system was the backbone of the Korean vocational system from the late 1970s until it was replaced in 1999 by more effective active labor market programs (Chang, 2009).

To sum up, the level of worker skills—both general and specific—increased considerably as the industrial structure shifted from low-skill to high-skill manufacturing. This transition places Korea squarely among unskilled-labor abundant developing countries in the beginning of the period and among skilled-labor abundant industrial economies in the later period, as postulated in the opening of this chapter. I have argued that in an open economy, skilled labor has an advantage where it is abundant and a disadvantage where it is scarce. If this theory is correct, we can expect that as the average skill level increased, Korean workers would have become more effective and powerful politically, all else being equal.

Figure 4-1. Employment Size by Industry



Source: Employment data comes from the OECD STAN Database.

From Skills to Collective Power

How do we know if skilled workers gained political power as a result of increased trade?

First, union density by industry is a rough indicator of each industry's political influence. Table 4-6 compares trade unionism for the three largest manufacturing sectors in Korea: textiles, chemicals, and metalworking.

From the discussion about the shift of comparative advantage from low-skill-intensive sectors such as the textile and garment industry to high-skill-intensive manufacturing such as the automobile industry, we should be able to observe union activities falling in textiles and rising in metalworking. Indeed, the data reveals such a pattern. Membership in metalworking unions

started climbing in the early 1980s and expanded exponentially after the democratic transition, which contrasts starkly with declining unionism in the textile industry since the late 1970s (Kim, 2008). These divergent trends in union membership fit with accounts that young female workers in the textile and garment industries were the most powerful labor movement force in the 1970s, but male skilled workers in heavy manufacturing such as automobiles and steel gained political traction during the highly militant labor movement in the 1980s (Choi, 1997; Koo, 2001).

Although unionization rates have declined rapidly in all three sectors after reaching a peak in 1988-89,²³ the widened gap between textiles and metalworking has been maintained quite stably. Union membership data, however, provide only limited information about skilled labor's collective power and cannot shed light on important aspects of the interplay among exports, industrial structure and skilled workers. Here, we need to pay attention to the sudden drop of union membership across all industries following a brief period of heightened activity during the democratization period. It is not surprising that membership soared with the arrival of democracy, but why did it fall so rapidly?

There are many convincing explanations, but one of the important factors is Korea's unique enterprise unionism. The Chun Doo Hwan government, upon taking power in 1980, completely banned unions at the level of industry, restricting them to the firm level only. This would turn out to have a lasting and decisive effect not only on Korea's future labor movement but also on labor politics in general. Even under democratic governments that were more permissive about trade unionism, enterprise unionism has continued to take hold among workers and labor movements. The fragmentation of the labor movement into company unions led to a rapid downfall of the political power of organized labor all together. In addition, there was

²³ Trade unionism was most active in the years immediately following democratization when it got out of tight control of the government.

another important development within the increasingly marginalized labor movements. In combination with Korea's unusually concentrated industrial structure centering around the *chaebol*, labor activism started to show a disparity between big firms and smaller sized firms. Workers in the former are highly militant, powerful, well-organized and able to obtain concessions in wage negotiations with their employers drawing on their ability to organize. In contrast, labor unions in small firms tend to have greater difficulty in organizing workers and in wresting wage and other concessions from their employers.

Table 4-7 shows a widening gap between firms of different sizes. With respect to the labor market structure, job growth shifted from big to smaller sized employers between 1993 and 2005. The number of workers employed by manufacturers with less than 50 employees has increased by 15% while employment in the largest manufacturers with more than 1000 employees dropped by 55%. That means that decent jobs with better pay and working conditions provided by big firms became scarce.

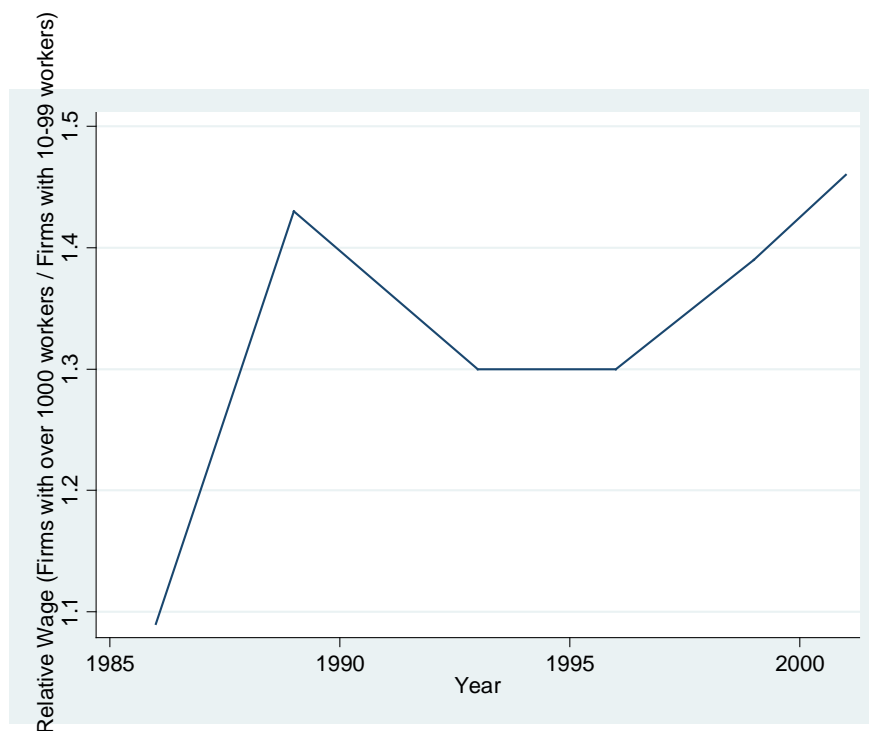
In terms of unionization, unions in small firms lost a majority of their members. The smallest firms saw union membership falling by 70%. While the decline in unionization is universal across firm sizes, unions in bigger firms were better able to control the damage. More importantly, despite the loss of union members in absolute term, the unionization rate at big firms itself went up and its importance in Korea's labor movements grew as evidenced by its increased share in union membership. Increasingly scarce employment opportunities and higher unionization rates in large firms produced the most defining characteristic of the contemporary Korean labor movement: powerful labor unions concentrated in large manufacturers. The growing disparity in workers' power between small and large enterprises is further evidenced by the widening gap in wage levels.

Table 4-7. Union Membership in Manufacturing by Firm Size

| Manufacturing Firm Size (Number of Employees) | Union Membership | | | | | Wage Workers | | |
|--|------------------|---------|---------|---------|----------|--------------|-----------|---------|
| | 1993 | | 2005 | | Change % | 1993 | 2005 | Change% |
| | Number | Share % | Number | Share % | | Number | Number | |
| 1-49 | 23,839 | 3.2 | 7,083 | 1.7 | -70.3 | 1,626,297 | 1,870,531 | 15.0 |
| 50-99 | 28,404 | 3.8 | 16,091 | 3.9 | -43.3 | 395,045 | 404,855 | 2.5 |
| 100-299 | 113,049 | 15.3 | 67,801 | 16.4 | -40.0 | 524,284 | 484,813 | -7.5 |
| 300-499 | 64,704 | 8.8 | 35,178 | 8.5 | -45.6 | 192,604 | 136,416 | -29.2 |
| 500-999 | 117,250 | 15.9 | 52,953 | 12.8 | -54.8 | 276,210 | 140,888 | -49.0 |
| 1000 & more | 392,148 | 53.0 | 233,977 | 56.6 | -40.3 | 921,246 | 413,390 | -55.1 |
| Total | 739,394 | 100.0 | 413,083 | 100.0 | -44.1 | 3,935,686 | 3,450,893 | -12.3 |

Source: Cho (2008), *The Korean Economy and Change in the Labor System*, p.99.

Figure 4-2. Wage Gap across Firm Size for Male Workers



Source: Jung (2006), *The Political Sociology of the Contemporary Labor Market*, p. 282

Figure 4-2 confirms that workers employed in big firms were indeed able to translate their organizational power into higher wages in recent years. The wage gap between male workers at firms with 10-99 employees and those at over 1000 employees widened with democratization in the late 1980s and the gap has been growing since mid-90s. In summary, workers in large firms are better organized, more powerful and, as a result, better paid.

Having established the political strength of workers hired by large manufacturers, the next question is whether there is a correlation between firm size and the skill-intensiveness of work. My main thesis has been that international trade tends to strengthen the power of skilled workers in economies endowed with high-skilled labor. Given that Korea has become a high-skill-abundant country as evidenced by greatly improved skill levels and comparative advantage in skill intensive production, we should be able to observe this causal process unfolding. If there is a positive relationship between firm size and skill intensity, it would serve as good evidence that skilled workers employed by large manufacturing firms indeed have benefited from international trade. Indeed, there is ample evidence of skill gaps between small and large firms in Korea. For example, Ahn's study (2006) provides strong support for a correlation between firm size and skill level. It shows that small firms are concentrated in low-skill industries and that the skill differentials between small and large manufacturers have been widening since at least 1990. By 2003, 90% of firms in low-skill manufacturing were small ones while the proportion of small firms was less than 50% in high-skill industries (Ahn, 2006: 55). This finding supports the hypothesis that workers employed by high-skill-intensive, large-sized manufacturers are powerful.

What do these findings imply for the politics of employment protection? First, workers employed in larger firms would have strong preferences for employment protection. In general, skilled workers are interested in preserving the returns to their investment in skills. Since large manufacturers tend to belong in high-skill industries and require a large proportion of skilled workers, and since their employees tend to have strong collective power, I expect that labor unions in large manufacturing firms and high-skill industries will be powerful advocates for employment protection.

Hypothesis 1: All else being equal, workers at large firms prefer strong employment protection, and the unions representing them will be strong advocates for policies that provide such protection.

Second, the discussion leads us to predict that the disparity between small and large firms would contribute to a distributional conflict over employment protection. I have shown that employment opportunities for larger firms have narrowed, while the wage differentials between them and small employers have widened. This will make skilled workers at large manufacturing firms defensive about their job and pay. Therefore, we should be able to observe that employment protection becomes a major source of political conflict as the disparities among firms increase in terms of productivity, wages and worker unionization.

Hypothesis 2: Disparities between firms of different sizes will intensify the political conflict over employment protection.

DEINDUSTRIALIZATION IN KOREA

In the previous section, I discussed how changes in the industrial structure and pattern of exports shaped Korea's labor market, and I considered the political implications that this transformation might have on employment protection policies. In this section, I address broader structural changes in the economy, paying attention not just to shifts within the manufacturing sector, but also to the growth of the service sector between 1980 and 2008. As in the previous section, where I assumed that a structural change took place during this period that shifted the causal relationship between the global economy and employment protection, I assume that the causal linkage between deindustrialization and employment insecurity changed in a fundamental way. It is easier to define a cut-off year that marks a structural change in this case. If we accept the definition of deindustrialization as a shift in employment from manufacturing to services, the share of manufacturing employment started to decline in 1989. Until that point, both manufacturing and service employment experienced growth, absorbing laborers from the primary sector such as agriculture, fishery and mining. I have argued that a mere increase of service employment does not necessarily represent what we call "deindustrialization." Beyond the employment share in services, it is essential 1) to explore whether the growth of services was a result of the contraction of the primary sector or of manufacturing and 2) to examine variation within the service industry. Whereas "deindustrialization"—that is, labor movements from manufacturing to services—tends to increase labor market insecurity, if the rise in service employment is primarily caused by migration from the primary sector, it would have a different consequence. However, even in the former case, the composition of services could have a noticeably different impact on employment insecurity. Within the service industry, different sectors are distinguished by labor productivity and skill requirements. In particular, if low

productivity sectors grow disproportionately, this would present more challenges to labor markets.

To summarize important characteristics of Korea's service industry, the growth of services in the 1980s was facilitated by the rapid decline of the primary sector. Because the Korean economy experienced a concurrent expansion of manufacturing during this period, it did not pose serious challenges to job insecurity. However, things started to change in the 1990s, and Korea's employment structure followed in the footsteps of the advanced industrial economies: the decline of manufacturing and the rise of services. However, the industrial composition within services in Korea was much worse than in many of the OECD countries. The overall productivity growth in services has been sluggish and low-productivity services, such as small-scale retail, are more successful than high-productivity, high-skill-intensive services, such as business services. The combined effect of these two developments has negatively impacted job stability. Below, I will provide evidence supporting my argument and propose hypotheses

The Growth of the Service Sector in the 1980s

Despite its aggressive push for industrialization during the 1970s, in 1980 Korea was still an agrarian economy with a large portion of its population working in the primary sector. Table 4-8 shows Korea's employment structure by industry between 1960 and 1989. As a share of total employment, employment in agriculture, fishery and mining decreased from 38.5% in 1980 to 24.8% in 1989. Both manufacturing and services continued to grow during this period. Among services, wholesale, retail, restaurants and hotels take up the biggest proportion, reaching 50% of total service employment in 1989. To understand the characteristics of employment growth in services during this period and to prove that it did not mean the growth of low-skill, low-paying

jobs, in Table 4-9 I compare workers' skills across industries, using the average educational attainment of workers for each industry as a proxy.

On average, workers in the service sector had the highest level of education. When we look closely into the sub-categories of the service sector, as we might expect from the heterogeneity of services, there is a high degree of variation, ranging from low-skilled wholesale, retail, restaurants and hotels to high-skilled finance, insurance, real estate and business services. Despite the intra-industry variation, however, many of the jobs were created in relatively high skilled, productive service sectors during this period.

Table 4-8. Change in the Employment Structure (%)

| | 1960 | 1966 | 1970 | 1975 | 1980 | 1983 | 1986 | 1989 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|
| Agriculture, Fishery | 65.9 | 57.2 | 50.8 | 49.0 | 37.8 | 33.3 | 28.2 | 24.4 |
| Mining | 0.7 | 1.1 | 1.0 | 0.7 | 0.7 | 0.7 | 0.7 | 0.4 |
| Manufacturing | 6.8 | 12.0 | 14.3 | 17.4 | 22.1 | 21.1 | 23.3 | 25.2 |
| Electricity, Gas and Water Supply | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.5 | 0.3 | 0.3 |
| Construction | 1.7 | 2.4 | 4.6 | 3.8 | 5.2 | 6.3 | 6.4 | 6.8 |
| Wholesale, Retail, Restaurants and Hotels | 9.3 | 10.0 | 12.6 | 13.6 | 16.2 | 19.0 | 20.4 | 21.5 |
| Transport Storage and Communications | 2.1 | 2.1 | 3.2 | 3.4 | 4.3 | 4.8 | 4.8 | 4.8 |
| Finance, Insurance, Real Estate and Business Services | 0.8 | 0.8 | 1.0 | 1.2 | 2.3 | 3.0 | 3.5 | 4.2 |
| Community, Social and Personal Services | 11.6 | 14.1 | 12.0 | 10.8 | 11.1 | 11.4 | 12.3 | 12.4 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Kim (1991), *Employment in the Service Sector*, p.25.

Table 4-9. The Level of Education for Workers by Industry (%)

| Industry | Education | 1970 | 1975 | 1980 | 1983 | 1986 | 1989 |
|-------------------------|-----------|------|------|------|------|------|------|
| Agriculture and Fishery | ≤Primary | 87.9 | 84.5 | 80.0 | 73.3 | 87.6 | 87.0 |
| | Secondary | 11.6 | 15.4 | 19.4 | 25.6 | 11.0 | 11.8 |
| | ≥Tertiary | 0.6 | 0.6 | 0.6 | 1.1 | 1.4 | 1.1 |
| Manufacturing | ≤Primary | 50.2 | 43.3 | 30.8 | 23.8 | 46.6 | 40.5 |
| | Secondary | 42.1 | 49.0 | 61.4 | 65.7 | 41.1 | 47.6 |
| | ≥Tertiary | 7.7 | 7.7 | 7.8 | 10.5 | 12.3 | 11.8 |
| Services | ≤Primary | 42.3 | 37.5 | 27.6 | 23.5 | 41.2 | 38.7 |
| | Secondary | 42.9 | 46.7 | 56.6 | 58.6 | 39.5 | 42.6 |
| | ≥Tertiary | 14.8 | 15.8 | 15.8 | 17.9 | 19.3 | 18.7 |

Source: Kim (1991), *Employment in the Service Sector*, p.88.

Service Employment since the 1990s

Now we move on to the employment structure of Korea after 1990 when manufacturing employment began to trend downward. My expectation is that the effect of deindustrialization would have taken hold and that the growing number of jobs would have been created in low-productivity service sectors.

The most noteworthy feature of Korea's deindustrialization is the rapidity of the decline in manufacturing. Reaching its highest level at 27.8% in 1989, it took less than 15 years for manufacturing employment to fall below 20%, the shortest time among industrial countries. Table 4-10 shows how many years it took for manufacturing to drop in various industrialized countries from its peak share of total employment to below 20%, an illustration of the unusual speed of deindustrialization in Korea. Deindustrialization arrived in Korea quite prematurely as judged by the level of economic development. In comparison with earlier industrializers, where the national income per capita was around \$14,000 at the start of deindustrialization, Korea's GDP per capita was only \$9,000 in 1989 (in 1995 dollars).

Table 4-10. Decline in Manufacturing Employment

| | Peak Year (A) (manufacturing employment, %) | First Year Falling Below 20%, (B) | (B)-(A) (years) |
|---------|---|--------------------------------------|-----------------|
| Korea | 1989 (27.8) | 2003 | 14 |
| US | 1953 (32.3) | 1983 | 30 |
| Germany | 1970 (38.1) | 2003 | 33 |
| Japan | 1973 (27.4) | 2001 | 28 |

Source: Cho (2008), *The Korean Economy and Change in the Labor System*. p.102

More importantly, it is wholesale, retail, restaurants and hotels that take up the biggest share of employment among services in Korea. In terms of employment, this sector is unusually large compared to other high income countries. While it comprises only about 25% of employment for G7 members averaged over 1980-2002, employment in this sector hovered around 50% in Korea during most of the period (Ahn, 2006). Despite the large number of jobs generated in this sector, its value-added is much smaller in Korea, suggesting that there is a serious problem of low productivity and that the types of jobs that were created in this sector were not favorable to workers. The sluggish productivity growth in services during this period contrasts starkly with growth during the earlier period. This fact is confirmed when we compare Korea's labor productivity with that of other nations. Whereas productivity of manufacturing has constantly improved, the labor productivity of Korea's services has not improved much over the period, causing it to lag behind other nations (Hwang, 2009). In particular, the productivity of consumer services is notoriously low, even behind Mexico. Therefore, a defining characteristic of Korea's tertiarization is the expansion of low productivity services. This presents a daunting challenge to Korea's labor market. I showed in the previous section that big manufacturing firms

are reducing hiring while small manufacturers, characterized by low productivity and less favorable pay and working conditions, are becoming an important source of job creation (Table 4-7). Since high productivity manufacturing jobs are disappearing, workers have to find a job either in low-paying, low-skilled, small manufacturing firms or in low-productivity services, where entering and exiting the labor market is relatively easy.

Deindustrialization tends to increase the returns of formal education and skew the national skill profile toward general skills as opposed to specific skills. It is well known that countries with a traditionally sizable service sector such as the United States and Canada have an educational system that emphasizes general knowledge rather than vocational training (Estévez-Abe et al., 2001). In those countries, the average years of schooling tend to be longer, with higher premiums on post-secondary education than in specific-skills systems. As shown by its extraordinarily high level of university education, Korea is becoming more like a general-skill-based economy, a tendency that seems tightly associated with deindustrialization. Indeed, wage premiums on education, which had been steadily falling during the big push for industrialization, started to rise in the mid-1990s and went up rapidly since the financial crisis (Cho, 2008a: 115). The rise of educational premiums in combination with deindustrialization are likely to exacerbate labor market inequality in terms of employment and wages between high-skill, high-productivity services such as finance and low-skill, low-productivity services such as retail trade. However, unlike skill-intensive manufacturing, which requires a certain level of job stability for workers to learn firm-specific skills,²⁴ high-skill services do not necessarily require job stability and long tenure since jobs tend to utilize professional knowledge that travels easily between firms. In other words, the nature of skills is different. Employers in skill intensive manufacturing may find

²⁴ The reason why job stability is required for skill-intensive manufacturing is that Korea does not have coordinated institutional mechanisms geared toward “industrial skills” such as authoritatively certified industrial skills recognized by any employer within a specific trade.

themselves having to give in to workers' demands for employment security because they share at least some interest in job stability with their employees due to the need for securing skilled workers, but in the case of services, the nature of skill requirements could make workers more vulnerable to employment insecurity.

Employment insecurity comes not only from greater risk for job loss, but also from different modes of hiring, which typically tend to fall short of regular labor contracts in terms of wages, working conditions, social insurance and other regulatory protections. Service workers are particularly vulnerable to the latter type of insecurity due to the difference in skills between the manufacturing and service sectors. While general skills are easily transferrable between firms and employers, this portability implies that workers can to a great extent be viewed as interchangeable. Workers with a low level of general skills or low educational attainment are particularly subject to atypical employment since they are easier to replace. Indeed, data show that among the OECD countries, Korea's workforce has the largest percentage of temporary workers and has increased rapidly, from 16.6% in 2001 to 29.7% in 2004 and 28.8% in 2006. When we analyze the incidence and distribution of temporary employment by industry, the service sector records much higher numbers in both measures than the industrial sector as shown in Table 4-11. In addition, temporary employment tends to be concentrated among the less-educated. Workers with low educational attainment are at a greater risk of having a temporary job than the more educated.

Table 4-11. Incidence and Distribution of Temporary Employment by Industry (%)

| | Industry | Korea (2005) | EU-15 average (2005) |
|--------------|-------------|--------------|----------------------|
| Incidence | Agriculture | 75.0 | 35.4 |
| | Industry | 18.7 | 13.2 |
| | Services | 32.1 | 14.0 |
| Distribution | Agriculture | 2.5 | 4.1 |
| | Industry | 15.0 | 25.6 |
| | Services | 82.5 | 70.3 |

Source: Grubb et al. (2007), *Addressing Labor Market Duality in Korea*, p. 23.

The growth of various services has brought significant changes to labor movements as well. Labor movements in Korea were traditionally led by workers in manufacturing. And within manufacturing, trade unionism became stronger skill intensive, large-sized firms in accordance with the change in the industrial structure. With the service sector gaining importance in the economy, however, labor activities also grew in the services. Table 4-12 shows that union membership in the service sector has generally expanded over time. The services that boast the largest number of union members are transportation, finance and insurance and education. Also note that the upward trend in finance and insurance was reversed in 1997-8, reflecting industry-wide restructuring as a result of the Asian financial crisis. The growing presence of unionized service workers in the Korean labor movement and the particular labor market risks they are subject to lead us to expect that they should be vocal and visibly active in the politics of employment protection.

Table 4-12. Industrial Share in Total Union Membership (%)

| | Manufacturing, Total | Chemical, Textile | Metalworking | Transport | Finance, Insurance | Education | Wholesale, Retail etc. | Communications | Health | Etc. | Total |
|------|-------------------------|-------------------|--------------|-----------|--------------------|-----------|---------------------------|----------------|--------|------|-------|
| 1981 | 45.0 | 31.5 | 11.4 | 26.9 | 6.5 | | 0.8 | 4.9 | | 15.9 | 100.0 |
| 1982 | 42.7 | 30.2 | 10.5 | 27.4 | 7.7 | | 0.8 | 6.1 | | 15.4 | 100.0 |
| 1983 | 43.7 | 30.4 | 11.4 | 26.0 | 8.3 | | 0.7 | 6.1 | | 15.3 | 100.0 |
| 1984 | 41.7 | 27.7 | 12.2 | 26.5 | 9.0 | | 0.8 | 6.1 | | 16.0 | 100.0 |
| 1985 | 41.1 | 26.5 | 12.7 | 26.7 | 9.4 | | 0.8 | 6.2 | | 15.8 | 100.0 |
| 1986 | 40.8 | 26.0 | 13.1 | 27.7 | 9.4 | | 0.8 | 6.3 | | 15.0 | 100.0 |
| 1987 | 43.4 | 24.0 | 18.1 | 24.6 | 9.9 | | 0.9 | 5.2 | | 16.0 | 100.0 |
| 1988 | 48.0 | 22.5 | 23.6 | 20.5 | 8.5 | | 1.1 | 4.0 | | 17.8 | 100.0 |
| 1989 | 47.4 | 22.2 | 23.2 | 20.7 | 9.0 | | 1.2 | 3.7 | | 17.9 | 100.0 |
| 1990 | 46.3 | 21.5 | 22.8 | 19.7 | 10.8 | | 1.4 | 4.0 | | 17.8 | 100.0 |
| 1991 | 44.7 | 20.7 | 21.9 | 20.8 | 11.0 | | 1.5 | 4.4 | | 17.7 | 100.0 |
| 1992 | 44.0 | 18.8 | 23.1 | 20.1 | 11.7 | | 1.5 | 4.7 | | 18.0 | 100.0 |
| 1993 | 40.5 | 17.5 | 21.6 | 22.1 | 12.5 | 0.5 | 1.4 | 5.0 | 1.8 | 16.2 | 100.0 |
| 1994 | 33.1 | 16.6 | 15.2 | 22.7 | 12.4 | 0.6 | 1.3 | 1.9 | 1.8 | 26.2 | 100.0 |
| 1995 | 29.8 | 15.6 | 13.0 | 22.4 | 12.7 | 0.6 | 1.3 | 2.2 | 2.0 | 28.9 | 100.0 |
| 1996 | 28.3 | 14.7 | 12.5 | 21.2 | 13.4 | 0.7 | 1.2 | 2.3 | 2.1 | 30.8 | 100.0 |
| 1997 | 34.8 | 12.7 | 21.1 | 24.4 | 14.0 | 0.7 | 1.2 | 2.4 | 2.9 | 19.7 | 100.0 |
| 1998 | 34.1 | 12.6 | 20.8 | 25.6 | 12.2 | 0.8 | 1.7 | 2.4 | 2.9 | 20.3 | 100.0 |
| 1999 | 31.8 | 11.4 | 19.7 | 28.1 | 10.9 | 6.4 | 1.8 | 2.1 | 2.6 | 16.3 | 100.0 |
| 2000 | 31.0 | 11.1 | 19.3 | 26.7 | 9.8 | 7.4 | 1.7 | 2.1 | 3.0 | 18.4 | 100.0 |
| 2001 | 30.6 | 10.7 | 19.3 | 25.9 | 9.6 | 7.7 | 1.7 | 2.1 | 2.7 | 19.8 | 100.0 |
| 2002 | 30.4 | 10.8 | 19.0 | 25.8 | 10.2 | 8.3 | 1.8 | 2.2 | 3.0 | 18.3 | 100.0 |
| 2003 | 30.3 | 11.0 | 18.7 | 26.2 | 9.9 | 8.4 | 1.9 | 2.4 | 3.0 | 17.9 | 100.0 |
| 2004 | 29.2 | 10.2 | 18.4 | 24.6 | 9.7 | 6.6 | 1.9 | 4.5 | 3.0 | 20.5 | 100.0 |
| 2005 | 28.9 | 10.0 | 18.3 | 23.9 | 10.1 | 7.9 | 1.9 | 4.7 | 2.9 | 19.9 | 100.0 |

Source: Kim (2008), *Labor Union Organizations in Korea: Analysis of Union Membership (Union Density)*, p.56

Note: The data are drawn from the Ministry of Labor.

Based on my discussion on the structural change of the Korean economy since 1980, what can we expect about the politics of employment protection? First, I expect that the growth of services in the 1980s did not pose a particular challenge to the institutions of employment protection. I have shown that the service growth up until 1989 had a very different pattern than in the later period when deindustrialization process hit its stride. Employment growth in services was propelled by the labor supply from the primary sector, and the service sector made

significant progress in improving productivity comparable to manufacturing throughout the 1980s. The service growth since the 1990s, in contrast, features labor flows from manufacturing and overall low productivity. This will create a downward pressure on employment protection. And as a result, the deindustrialization effect will intensify a political conflict over employment protection and we should be able to observe the emergence of employment protection as a major political issue after the 1990s.

Hypothesis 3: Low-productivity services will employ a high proportion of atypical workers.

The service industry requires qualitatively different skills than manufacturing. The emphasis on general skills makes employees more vulnerable to job insecurity. While it tends to put great pressure on workers in general, workers in high-skill, high-productivity services are likely to be interested in employment protection. On the other hand, relatively unskilled workers with low educational attainment are particularly vulnerable to atypical employment. Korea's deindustrialization process is characterized by a disproportionate growth of low-productivity services. This should pose a particular challenge in providing regulatory protection to less educated, more vulnerable workers. If my argument based on skill differences between manufacturing and services is correct, we should observe regulations of atypical employment as being more protective of workers in manufacturing than in services.

Hypothesis 4: Workers in high-skill, high-productivity services are likely to have a strong interest in employment protection.

Hypothesis 5: Regulation of atypical employment is likely to be more protective of workers in manufacturing than in services.

OTHER VARIABLES

In the previous sections I derived hypotheses regarding the politics of employment protection, based on the consequences of changes in trade and industrial structure for different social groups. But I did not take into explicit consideration Korea's political institutions. I now discuss briefly some of the political variables that might have played a role in shaping the politics of employment protection in Korea. As mentioned above, there are at least three domestic variables that could be potentially crucial: democracy, government partisanship and organized labor. In Chapter 2, I tested the effects of these three variables and found that ideological orientation of government has a systematic effect on regular employment protection in the OECD countries. Although the other two variables were not statistically significant in the regressions, there might be substantial effects that the particular models of estimation could not capture but might be revealed through qualitative investigation.

First, regime type could have played a crucial role in the development of employment protection. Korea experienced a democratic transition in 1987 after a long period of authoritarian rule. The Chun Doo Hwan government inherited policy legacies from the Park Jung Hee government and continued to drive industrialization through exports. This developmental strategy leads us to predict that the Chun government took a repressive stance on worker protection and democracy increased employment protection. On the other hand, it is also possible that the authoritarian government did not need to honor labor codes, meaning that the

existence of employment protection *laws* does not reflect the *de facto* level of employment protection. If this is the case, we would not see much change in *de jure* employment protection as a result of regime change. Therefore, there are two opposing possibilities. More fundamentally, however, regime type would not be a viable theoretical explanation unless the internal political dynamics are cogently articulated, specifying who wants employment protection, who opposes it and how authoritarian and democratic systems might influence *de jure* and *de facto* protection. I paid attention to structural changes in trade, industry and the labor market to answer these questions. The type of government constitutes the broad context where important actors interact and where preferences translate into actual policy, but as theory it is rather incomplete.

Second, would government partisanship have any predictable effect on employment protection in Korea? The partisan theory argues that Leftist governments cater to workers and therefore tend to produce policies that favor workers. I have tested for this partisanship effect and found that Leftist governments are associated with strong protections for regular workers, but do not significantly affect protection for irregular workers. Korea, after the democratic transition, had five different governments—three of them conservative and two liberal. According to the partisan theory, we should be able to observe that liberal governments provide workers with better employment protection. As we will see, this was not the case. Despite sustained efforts, the first two conservative governments failed to weaken employment protection, and it was finally lowered under a liberal government. In fact, the conservative Kim Young Sam government almost succeeded in liberalizing employment protection, but eventually had to step back in the face of immense opposition from workers.

Lastly, the strength of organized labor could be a significant factor in the politics of employment protection. However, rates of unionization are not likely to predict employment

protection very well. Union density has been consistently low in Korea. Even at its peak immediately after the democratizing phase, it never reached 20%. With the repressive Chun government's disbandment of industrial federations in 1980, the rate went from 14.7% in 1980 to 12.3% in 1986. The arrival of democracy led the unionization rate to reach its highest at 18.6% in 1989, but it continued to decline throughout the 1990s and remained stagnant around 10% in the 2000s (Kim, 2008). This low level of unionization contrasted starkly with frequent reports of labor militancy in Korea. Many scholars attribute Korean workers' militancy to the authoritarian roots of repressive policy and enterprise unionism. Enterprise unionism makes collective bargaining difficult and industrial relations confrontational, and it leads workers to resort to their collective power to get the most out of bargaining with their employers. One consequence of enterprise unionism is a great disparity in labor unions' organizational power and resources depending on firm size, as discussed above. In other words, the aggregated unionization measure is not very helpful in assessing the influence and role of organized labor in the politics of employment protection. Rather, as argued earlier, firm size and characteristics of the industry provide more useful information about workers' preference for or against employment protection and their ability to act on that preference.

To sum up, although the three candidates—democratization, government partisanship and the strength of organized labor—shed light on Korea's political context, they do not seem to elicit highly illuminating theoretical predictions regarding employment protection in Korea. Their limitations reinforce the importance of sectoral analysis that pays attention to differences between industries. In the next section, I assess the validity of my hypotheses regarding political conflict over employment protection.

ASSESSMENT OF CONGRUENCE

In this chapter, I have extended my argument about the causal linkages between globalization and deindustrialization and employment protection, and developed “observable implications” of the theory in the context of Korea, based on internal changes in its industrial structure and on the labor market associated with trade and the service economy. With the growing interaction with the global economy through trade, Korea’s industrial structure has evolved in such a way that we can identify a key group of workers as having a clear interest in strong employment protection. Similarly, different characteristics of the service sector expansion since the 1990s lead us to predict the direction of change in employment protection and who will be a key player in the process of policy change. This section will examine the validity of my predictions.

Before the 1990s

Korea left a legal provision on employment protection unchanged from its inception in 1953 to the late 1990s. The Labor Standards Act, which regulates employment contracts and working conditions, stipulates the conditions under which the termination of an employment contraction is considered legal, and defines the circumstances where employment contracts other than open-ended permanent contracts are allowed. The clause of the old Labor Standards Act on “Restrictions on Dismissal,” which prohibited dismissals “without justifiable reasons,” was long considered a legal basis for Korea’s “permanent employment system,” but later became an extremely contested phrase in the 1990s when employment protection emerged as a major political issue.

The old law also provided regulatory grounds for fixed-term employment, but it was only after the 1990s when its modification was widely called for and led to a fierce political battle among workers, employers, and political elites. Before we consider how labor politics changed in the 1990s, it's important to ask why the regulatory framework for job protection remained so stable for so long. Labor-related laws concerning collective rights underwent frequent changes amidst Korea's turbulent political history, but the expansive job protection law remained unchanged for a long time. Does this mean that the political dynamics of job protection were somehow unique, or should we exercise caution in reading into changes of the labor code?

Scholars have suggested ways in which individual workers' rights might have a different political logic than collective labor rights. A few of them have argued that authoritarian governments might be willing to provide relatively generous individual labor rights to compensate for the repression of collective labor rights (Caraway, 2009; Koo, 2001). Along this line of arguments, Choi (1997) differentiates labor-related issues according to the degree of an authoritarian government's intervention and permissiveness. When the potential political cost involved is high, we are likely to see the most direct and repressive intervention in areas such as workers' collective activities, but when the ruling elite does not perceive a significant threat to their political power—as in individual employment protection—we are likely to see a relatively permissive and indirect mode of intervention. Going beyond the authoritarian regime, Carnes (2008) suggests four broad labor regulation regimes, characterized by individual versus collective protectiveness, and he argues that skill level and labor's ability to organize determine an economy's labor regulation mode, regardless of regime type. The relative generosity of worker protection at the individual level could also come from the fact that there is a considerable distance between legal labor rights and the actual enforcement of such rights. The

gap is presumably much larger for individual rights than for collective rights and in non-democracies than in democracies. Indeed, there is evidence that this was the case for Korea's Labor Standards Act.

The 1953 Labor Standards Act, in fact, contained highly protective and unrealistically generous components, such as short working hours (8 hours per day and 48 hours per week) and generous paid leaves, which almost seem to have presupposed non-enforcement. The Act was a result of the transplant of foreign legal systems at the time of constitution writing. Despite its initial inability to regulate labor relations, however, as the economy developed, it eventually grew in importance as an enforceable regulatory mechanism. By the 1960s, employers started voicing concerns about the strictness of worker protection as public sectors and large companies found it increasingly difficult to totally disregard the law (Kim, 2007).²⁵ In other words, while the law remained unaltered during this period, its relevance grew for employers and employees in the formal sector.

When the Chun government seized power in December 1980, it initiated swift and sweeping revisions of labor-related laws, demonstrating its readiness to intervene in worker-related disputes by producing an extremely brutal and repressive labor policy. The new labor code introduced flexible working hours, but the Labor Standards Act—including the unfair dismissal clause—remained largely the same. Despite the Chun government's repressive policy, workers' collective power grew constantly during this period amidst changes in Korea's industrial structure and improvements in the skill level of its people. Once the democratic

²⁵ Dong-A Ilbo (daily newspaper) editorials at the time, which called for the newly instituted military government of General Park to relax the law in line with the actual business environment, reflect the concerns that small and medium-sized employers had about the overly strict Labor Standards Act. See, "Unrealistic Labor Standards Act," Dong-A Ilbo on 1961, 12,6 and "Labor Standards Act that Small and Medium-sized Firms can observe" on 1962, 3,11. For other evidence, the Korea Chamber of Commerce and Industry filed a petition with the government for a revision of the Labor Standards Act in 1964 (Kim, 2007).

transition created political space for workers, the labor movement revealed its latent power through the rapid expansion of unionization, prompting the eruption of heated labor disputes. The most significant measure of the Chun government that would define the future course of labor politics after democratization was to restructure labor movements into decentralized company unions. The purpose was, of course, to cripple workers' organizational power. While it was effective in suppressing the labor movement as long as the government exercised tight political control, another development in the economy generated an unintended consequence. That is, the concentration of wealth into a small number of large companies in important export industries that required a large proportion of skilled workers led to the *empowerment of those skilled workers on the shop floor*.

The industrial concentration that deepened during this period had important political implications. The aggressive drive for rapid industrialization and the promotion of exports in heavy manufacturing products, which the Park government adopted and the Chun government intended to continue using all kinds of policy instruments, started to present some serious problems to the Chun government. The government tackled the increase in economic inefficiencies and growing fiscal strain on the government through rationalization of select industrial sectors and unprecedented fiscal austerity. To check the overgrown *chaebol's* economic power and industrial concentration, the Chun government also decided to take a set of significant measures. It is noteworthy that the new government introduced the Fair Trade Act upon coming to power in 1980, well before the most advanced industrial economies adopted such antitrust measures, not to mention developing countries (Koh, 2008). At the same time, the government adopted other policies to promote smaller producers, such as strengthening statutory requirements for banks' loans to small and mid-sized firms. Despite these measures, Korea's

dependence on large firms and industrial concentration was not significantly reduced, and at the same time those large employers' became increasingly dependent on the international economy, not only for sales of their products, but also as an important channel for capital mobilization. The magnitude of the industrial concentration and overall imbalance of the economic structure can be gauged from the growing share of subcontracting firms among small and mid-sized manufacturing firms. The number of subcontractors who produce intermediate goods for larger firms was around 20% of the total in the late 1970s, but grew consistently throughout the 1980s, reaching over 50% in the mid-1980s and over 70% by the early 1990s (Cho, 2008a). In other words, a majority of small and mid-sized firms became firmly subordinated into the *chaebol*-dominated production system. The vertical integration of small suppliers and large manufacturers was a policy designed to maximize efficiency by taking advantage of the division of labor in the production of export goods that require complicated stages of production of various parts and components, such as automobiles. The ultimate purpose of this policy was, therefore, to reinvigorate the competitiveness of the export industry in the early 1980s when the Korean economy faced some serious challenges. In 1980, both the real GDP and real merchandise exports recorded negative growth for the first time since the 1960s, sending a worrying signal to Korea's policymakers. Along with the other stabilization and rationalization measures mentioned above, the new government hoped that this particular industrial policy would be transformative. Over time, however, the vertical integration, interacting with enterprise unionism, became a particularly difficult problem in later years, when the Korean economy degenerated into a production system with a highly segmented labor market.

Enterprise unionism imposed by the Chun government, on the other hand, deprived not only workers of institutional mechanisms facilitating solidarity across firms and industries, but

also employers of coordinating mechanisms in dealing with workers' wage demands. One consequence for labor movements became clear after the 1990s: a large disparity in organizational power between those employed by large firms and those who work at small firms. On the part of employers, it leads large manufacturers, in the face of formidable labor unions, to pursue technological and managerial devices such as automation to contain increasing labor costs and to outsource and subcontract greater parts of the production process to smaller firms whose employees, unable to mobilize organizational resources as workers at large firms could, have to accept lower wages and greater job insecurity. In addition, small manufacturers, operating on a thin margin, have limited resources to invest in research and development, which leads to deteriorating productivity, and in turn deters them to pay better wages to their employees. In sum, the Korean economy has evolved into segregated sectors demarcated by firm size, productivity, technology levels, wage levels and organizational capacity of workers.

Thus, the broader economic context—democratization and workers becoming more organized—helps us to understand why employment protection emerged as a contested issue in the later period. By the time of the democratic transition, the economy had already recovered its vigor and flourished thanks to exceptionally favorable economic conditions that included falling oil prices, low interest rates and appreciation of Japanese yen. In 1987, the year marking a formal transition to democracy, the GDP growth rate exceeded 11%. The booming economy caused an economy-wide labor shortage and workers were able to capitalize on their latent collective power that was unleashed by democratization, achieving wage increases that would have been impossible under the Chun government. The wage differentials between firms with different sizes, as a result, were greatly reduced. This particular confluence of two circumstances—

democratization and the rise of democratic union movements coinciding with an unprecedented economic boom—sowed the seeds for the political conflict over employment protection.

The most important developments of union organizations following the political transition to democracy were the rise of *chaebol* unions and the formation of a new national union organization, the Federation of Korean Trade Unions (FKTU). The democratic union movements were led by independent unionists in opposition to the government-sanctioned monopolistic unions encompassed by the umbrella organization called the National Congress of Trade Unions (NCTU). Born from the alliance of *chaebol* unions (the Solidarity Council of *Chaebol* Unions formed in 1990), white collar unions (the Council of Occupational Unions formed in 1988) and progressive unions in manufacturing (the National Congress of Trade Unions formed in 1990), the FKTU became the focal point of progressive labor movements and an important player in labor politics, but it remained a loose umbrella organization, meaning that supremacy still rested with individual member unions at the level of the firm or factory.²⁶ As a result, the disparity in unions' organizational resources between firms was also replicated in the internal dynamic within the FKTU in their response to employment insecurity, which was already growing and would become an immediate threat to workers during the financial crisis. The earlier section discussed the concentration of unions in large firms, and the discussion of this section identifies the causes of disproportionate worker representation by connecting the industrial concentration to enterprise unionism.

The Political Process of Reforming Employment Protection since the 1990s

²⁶ The FKTU was formed in 1995 and recognized by the government as a legal labor organization in 1997.

It was at the turn of the decade when the issue of employment protection first entered national labor politics in the post-democratization period. Until then, the most salient issues in labor politics were the lifting of restrictions on collective labor rights such as rights to form unions and recognition of newly formed independent unions. In the wake of democratization, labor-related laws were modified along with the constitution, but changes were partial and incomplete. Some of the most problematic and undemocratic elements remained unchanged, leaving every party involved unsatisfied, and consequently, both employers and two national labor organizations, the NCTU and the FKTU, were focused on these issues. The labor reform movement soon added employment protection to its agenda. The first three quarters of the 1990s are characterized by continued political discussions and repeated attempts at labor reform without much success in bringing about actual legislative changes. However, this period provides ample materials that can be used to evaluate my hypotheses about the interaction between economic changes and labor market insecurity.

From the early 1990s onwards, employers started to express various demands for labor market flexibility ranging from legalizing fixed-term employment and dispatched workers to collective dismissal. Such demands reflect the labor market changes that were already underway. Temporary workers were already being used extensively, and in the early 1990s the Supreme Court had ruled that collective dismissal for managerial reasons such as bankruptcy was “fair.” What employers were asking, therefore, was to explicitly incorporate those practices into law. From their perspective, the employment protection system not only failed to reflect the changing business environment, which required greater flexibility, but also was going backward. In fact, in 1989, when a series of labor-related bills were submitted to President Roh Tae Woo, he vetoed bills related to collective labor rights, but to employers’ dismay he accepted a bill that reduced

working hours. As I have discussed earlier, large firms, in the absence of coordination mechanisms for collective wage bargaining, were instead individually pursuing a variety of strategies to minimize labor costs and seek both numerical and functional flexibility. Smaller firms, unable to pay competitive wages, had greater difficulty in dealing with workers. This decade, in fact, witnessed a widening disparity between large and small firms. On the part of workers, this meant decreased job security, leading them to oppose to any policy attempts to change the existing employment protections in employers' favor. The NCTU, more active in engaging in policy discussions and lobbying than the militant FKTU, made a series of demands for strengthening job protections. For example, in response to the increasing incidence of collective dismissals following the court ruling in favor of employers, the NCTU demanded that a new clause mandating consultations with labor unions in case of collective dismissal be introduced to the existing law. It also demanded that the advance notice period be extended from 30 to 90 days and temporary workers be granted permanent employment status after working for three months. Therefore, although there were no changes in employment protection at the time, this period witnessed rising market insecurity, which laid the foundation for political conflict over employment protection (Hypothesis 2).

The political conflict over employment protection intensified still further under the Kim Young Sam government. The Kim government, which lauded itself as the first democratic government, was eager to incorporate labor unions into policy discussions about politically sensitive labor reforms. To this end, it created a consultative body and even invited the progressive FKTU to consultation meetings. The previous government's failure to curb wage increases and regulate industrial relations taught the Kim government that any significant labor

market reform would be unattainable without cooperation of strong member unions within the FKTU. The consultative body was unable to reach a consensus, and the negotiations were particularly unsatisfying to the member unions of the FKTU, which had a keen interest in maintaining the existing employment protection institutions.

The failure of negotiations and the ensuing heavy-handed attempts by the ruling party to pass a bill that was heavily skewed in favor of employers triggered national strikes of an unprecedented scale and intensity (Koo, 2000). Consequently, the immense opposition from labor brought the issue back to the negotiation table between major political parties. This rocky process of political negotiations and the repeated failure of reforming employment protection institutions demonstrate how difficult it was to effect change on that issue which the most powerful segment of workers had the most direct and immediate interest. Labor unions representing regular workers employed by big firms had the most powerful voice within the FKTU and found it exceedingly difficult to compromise on the measures lowering job insecurity.

This internal dynamic within the labor movement is more vividly displayed in the second round of labor market reform attempts, which took place under much different circumstances. The financial crisis of 1997 necessitated political solutions to minimize social costs associated with imminent and avoidable collective dismissals at firms that were subject to drastic economic restructuring. In addition, the IMF demanded that the Korean government carry out labor market reform to increase flexibility. The Kim Dae Jung government, following the example of the previous government, decided to use a tripartite consultative forum to bring the relevant parties together to push the difficult reform through. However, as my hypotheses predict (Hypothesis 1 and 4), internal opposition from powerful labor unions representing large firms in key manufacturing industries and financial services made it difficult for the FKTU to take a coherent

position regarding the specifics of institutional change regarding employment protection. When it finally agreed to the legalization of collective dismissals and dispatched workers, this led to a severe internal dispute within the FKTU. In particular, labor unions under the powerful metalworking industry federation, unions representing manufacturing workers of Hyundai *chaebol* and other unions representing bankrupt firms vehemently protested the agreement and declared it invalid, but to no avail (Noh, 2008: p.177). Finally, this long, turbulent phase of employment protection reform came to a close, particularly with respect to regular employment protection.

However, due to the growing number of nonstandard workers, atypical employment protection remained a politically divisive and controversial issue. As already shown, Korea has had an unusual number of non-regular workers and a sizable informal sector. Jobs in large firms and the public sector, which used to be considered as virtually guaranteeing job security, became less secure amidst changes to employment protection policies. After the financial crisis, firms focused more intently on minimizing labor costs. The legalization of dispatched worker agencies and the increasing incidence of outsourcing and subcontracting reflect this changing labor market. The initial law introduced in 1998 allowed dispatched worker agencies in a limited number of sectors and job categories. Manufacturing, interestingly enough, was excluded from the list. Many employers in manufacturing industries have extensively used contingent workers and consistently demanded the dispatched work arrangement to be permitted in manufacturing as well. That it was excluded from the list against employers' wishes and continues to remain so despite the persistent demands from the business community supports my arguments about skilled workers' interest in employment protection and the service sector. Because skilled workers in manufacturing have a great interest in protecting their specific skills, they will tend to

seek employment protection and other institutional mechanisms to safeguard their jobs. The dispatched worker agencies are the most threatening and unacceptable in this regard. Facing opposition from skilled workers, employers in manufacturing have resorted to the illegal use of contingent workers, but they were unable to achieve a legal change that would allow for the use of contingent workers (Hypothesis 5). Employers in the service industry, in particular, have shown a greater tendency to employ atypical workers in place of regular workers (Hypothesis 3). These developments in the labor market have caused various social problems and have been criticized for exacerbating income inequality. As a result, policy makers started to consider strengthening protection of atypical employment arrangements. Against this backdrop, the Roh Moo Hyun government introduced a legislation designed to protect contingent workers. The intention of these legislations was to induce employers to extend regular employment contracts to contingent workers that they had already hired by limiting terms on employment contracts. However, not only employers but also workers have raised concerns about this legislation. Labor unions that primarily represent regular workers are particularly ambivalent about these measures, which contrasts with their active involvement in blocking the introduction of dispatched worker agencies into manufacturing and their enormous efforts to prevent collective dismissals.

CONCLUSION

This purpose of this chapter was use the Korean case to show how interaction with the global economy and the growth of the service sector transform a country's internal economic structure—changes which and in turn shape the politics surrounding employment protection policies. The chapter began with a discussion of the advantages of the case study: the effects of

macro variables on outcomes are best understood by examining the causal process in specific contexts. I developed a set of hypotheses about the politics of employment protection in Korea after identifying the causal pathways that international trade and deindustrialization could take. In particular, I focused on the industrial structure and labor market structure that link the effects of the two macro variables to employment protection. Increased trade changed Korea's export composition and industrial structure. Interacting with the authoritarian governments' repressive labor policy, this change helped skilled workers at large manufacturing firms to become more interested in employment protection and, as a result, to play a more influential role in the political process of changing employment protection policies. As for the service sector, I paid attention to how the growth of service employment from the 1990s onward could impact employment protection. The trajectory employment protection in Korea generally conforms to my predictions. As hypothesized, employment protection became a politically salient issue during the transformation of the economy and the labor market. The division within the labor movement also confirms my prediction about skilled workers' preference and influence.

This discussion provides the empirical background for the next chapter, which will analyze the politics of social policy change in Korea. In Chapter 3, I demonstrated that employment protection has a large impact on social spending across countries. Detailed analysis of Korea's welfare state will elucidate the causal process in which change in employment protection shapes broader changes in social policy.

CHAPTER FIVE

From Employment Insecurity to the Welfare State

Korea, until recently, had an underdeveloped welfare state, which many have attributed to its export-led industrialization and authoritarian history. Through a series of recent reforms, the country no longer resides in the category of residualistic welfare states. In a short span of time, social insurance for old-age, sickness and unemployment has been reformed to cover a greater number of the population, and social services have also expanded significantly. This development seems to challenge two prominent theories of the welfare state. First, the expansion of the Korean welfare state contradicts the pessimistic view about the welfare state advanced by globalization scholars. The most significant initiatives of social policy came about at a time either when Korea was making an aggressive move to engage with the international market or when the effects of the global economy were most acute as in the financial crisis of the late 1990s. Second, power resources theorists would have a hard time explaining the Korean case, since key conditions of their theory—such as powerful labor organizations and social democratic parties—do not exist or did not play a major role in Korea.

This chapter will demonstrate that employment insecurity has been a critical factor in shaping the institutions of social protection in Korea, and thereby provide further empirical support for the arguments presented in Chapter 3. Chapter 3 showed that employment protection is a strong predictor of the level of government's commitment to social protection, trumping the effects of globalization and deindustrialization. But the causal relationship is reversed for the OECD and Latin American nations. In explaining these diverging, but systematic relationships, I hypothesized that pre-existing social protection institutions play a mediating role in connecting

employment insecurity to government-provided protection. If pre-existing social insurance is designed to protect a narrow segment of workers in the formal sector, who are also covered by protective labor codes (as is the case in many Latin American countries), then liberal labor reforms will threaten not only their job security but also the benefits that are attached to their job. The threat of liberalization, then, will motivate these workers to broaden the scope of social protection. In contrast, if pre-existing institutions of social protection are already extensive and reach a significant portion of the population (as is the case in many of advanced industrial economies), then weakening employment protection would make the welfare state less sustainable.

The Korean case corresponds to the first scenario; at first, its social protection system was limited to a small, protected sector, but it later experienced a series of expansions that extended coverage to a broader segment of the economy and for a greater variety of social risks. In particular, major turns in social policy took place in conjunction with the political process of employment protection change, especially in later years of the period. I argue that the weakening of employment protection meant for regular workers employed by big firms a greater vulnerability to a variety of risks. They could no longer rely on two essential, interlinked instruments that helped them cope with contingencies of life such as illness, unemployment and retirement—a secure job in the formal sector and steady sources of income. This newly generated vulnerability led them to develop an interest in social protection programs.

The chapter proceeds as follows. First, after summarizing the development of the Korean welfare state, I will discuss the limitations of existing explanations and articulate how my theoretical framework can explain the important patterns of social policy in Korea. In proposing an alternative approach to the development of the welfare state in Korea, I will emphasize the

role of regular, skilled workers by evoking the previous chapter's discussion on the consequences of economic change for the labor market. The last part will provide further evidence for my arguments by examining recent welfare reforms.

THE DEVELOPMENT OF THE WELFARE STATE IN KOREA

The level of the Korean government's commitment to social protection has been conspicuously low and social protection remained rudimentary until the 1990s. The 1990s was a watershed decade, and Korea now has four national social insurance systems—old-age, health, industrial accident and unemployment—that cover, at least in principle, the majority of the population. In addition to contributory social insurance, the government expanded social assistance and services to reach out to those who are not covered by social insurance programs such as low-income families and the elderly.

Industrial Accident Insurance

The dangerous process of mining and industrial production typically necessitates some sort of compensation mechanisms from employers. Most governments come to recognize the advantage of dealing with frequent industrial accidents through collective means rather than leaving it to employers' individual responsibility, and they typically acknowledge this that particular risk is social earlier than other types of risks. The Park Chung Hee government was no exception. After seizing power in 1960, his military government considered the introduction of social insurance for health care, unemployment and industrial accidents as part of a social reform package to stabilize the economy. It decided to adopt the industrial accident insurance program

first, persuading initially skeptical employers and labor unions that risk pooling would benefit both parties (Woo, 2008). Employers, at first wary about the additional financial burden on top of the existing liabilities mandated by the Labor Standards Act, accepted it with no difficulty once they saw its advantages over individual liabilities. The continued expansion of the program since its introduction in 1963 reflects the politically less divisive and uncontroversial characteristics of industrial accidents compared to other types of social insurance. Recently, the most noticeable developments include the expansion of coverage in 1989 stemming from the revised Labor Standards Act, passed in the wake of democratization under the Roh Tae Woo government, and another expansion in 1999, following the financial crisis.

Health Insurance

The introduction and expansion of other social insurance programs has been much more controversial. Mandatory health insurance was another social insurance program established by the Park government. As many welfare state scholars have pointed out, we need to pay attention to the specifics of social policy design, which are the real source of distributional conflict between different groups. In this regard, it is highly suggestive that the Park government chose to implement a system of large-employers-based provisions. As will be shown, these provisions received strong support from large businesses. The government mandated that large companies with more than 500 employees should provide workers with health insurance and that each employer must set up a separate insurance fund of its own. Each “health insurance society” was to set premiums according to the scope of coverage and to collect contributions. Although the system grew gradually over time to cover previously excluded groups—wage workers at smaller firms and non-wage workers in rural and urban sectors—this initial choice of a large-firm-

centered system gave birth to highly unequal health care coverage and wide variations in costs depending on the insured's labor market status. Because this segmentalist approach worked against workers at small firms, the self-employed and those in rural sectors covered under regional health insurance societies, and it worked in favor of regular workers at big companies, it generated political tensions between different social groups.²⁷ Since risk was pooled only within each insurer, insurance societies exhibited differential financial capabilities. The wide differences between sectors in terms of premiums and medical coverage led disadvantaged groups to complain about unfairness and to demand major reforms.

Although the democratic transition brought the issue of health care reform to the fore, the national health insurance program is a recent political product. In 1989, President Roh vetoed the reform bill passed in National Assembly, which was then dominated by the opposition parties. But in 2000, the Kim Dae Jung government finally put an end to the long, hard-fought battle over health insurance reform between those who benefited from the existing system and those who did not by integrating separate insurance funds into a government-run single payer system. The new system distinguishes between regular workers in the formal sector and atypical workers and the self-employed in the informal sector in calculating premium rates, but all are entitled to the same coverage. Specifically, the former group pays a fixed rate of their salary in conjunction with matched employer contributions, and the latter pays different premiums based on property ownership, income, age and gender (SSA, 2011). The latter includes highly heterogeneous groups, from low-income disadvantaged workers to high-income professionals. Because the unusually large size of the informal sector makes it difficult to levy a fair share of contributions

²⁷ Three categories of health insurance societies were created: public employee insurance, employee-based insurance and regional insurance. The self-employed and rural sectors were covered under regional insurance societies.

on high-income groups underreporting their income and taking advantage of administrative loopholes, inequity between the formal and informal sectors persists.

Old-Age Social Security

The other two major social insurance systems—old-age social security and unemployment insurance—developed much later under democratic governments, which in itself raises an interesting question. In fact, the Park government considered the introduction of the two systems, but did not push them through as it did for industrial accident and medical insurance. With respect to old-age pensions, the Park government even passed a law and completed all necessary administrative preparations but in the face of the first Oil Shock, it indefinitely postponed enforcement of the law. Evidence suggests that the main motivation for the Park government was to secure an enormous and stable source of capital that was much needed for heavy industrialization. This plan, however, was met with strong opposition from businesses and workers who saw it as nothing more than another tax increase.²⁸ There could be two main reasons why pensions were so strongly opposed, whereas health insurance had been so warmly welcomed. First, since pension benefits would be paid out in a distant future and are contingent on the government's will and financial capacity to act on its promises, a new pension system was viewed with skepticism as an immediate burden, rather than as reliable insurance for the future.²⁹

The second reason is equally important: the main beneficiaries of the new system—workers employed by big firms—already had an institutional mechanism intended to provide

²⁸ Faced with strong opposition from the public and employers, the government decided to lower the contribution rate from the initially planned 8% to 7%, which would be shared by employers and employees (Yang, 2008). Yang also points out that North Korea's publicized announcement of scrapping the income tax altogether in 1973 would have put an additional political burden on the Park government in the context of Cold War competition.

²⁹ In fact, concerns and skepticism were well founded since the inflation rate was rising consistently throughout the 1970s, with the average at 13.4%, suggesting that future pensions would be highly depreciated.

retired workers with some measure of income security—mandatory severance payments. The Labor Standards Act of 1953 stipulated that employers pay retiring workers a lump-sum “retirement benefit” in proportion to the length of their employment. Until the national pension system was adopted later, this retirement benefits system was the functional equivalent of pensions for workers at firms regulated by Labor Standards Law. However, since the Labor Standards Act always made exceptions for small firms, only workers hired by large and mid-sized firms were protected by the Labor Standards Act. To this day, small firms with less than five employees are exempt from the law and thus from the statutory requirement of providing retirement benefits. At a basic level, this reflects divisions between the formal and informal sectors and shows that firm size is a good indicator of labor market insecurity.

Going back to the discussion at hand, given the costs and risks associated with a government-run pension system, employers and employees in the formal sector did not have a reason to support it, especially since they were already providing retirement benefits under the current system. In fact, when a national pension was created later, the retirement benefits system caused a dispute between employers who demanded its repeal and workers who sought to retain it. The postponed plan of the new national pension was taken up by the Chun government in 1986 and finally implemented in 1988 under the Roh government. Starting from firms with 10 or more employees, it continued to extend coverage to smaller firms, rural areas, and finally the self-employed in urban areas, following the typical steps of expansion. But it emerged as a politically controversial issue when the long-term sustainability of the system was publicly called into question under the Kim Young Sam government. Consequently, the late 1990s were characterized by public debate over pension reforms. The conservative camp argued for a fundamental reform that would completely separate the earnings-related component from flat-

rate basic pensions and would eventually privatize the former to reduce the financial burden for the government. The Kim Young Sam government decided on this option, but this decision was overturned in the midst of the financial crisis. The more liberal, incoming Kim Dae Jung government dropped the radical two-tier plan and instead settled on a more moderate course of parametric reform, which lowered the replacement ratio from 70% to 60% and raised the age of pension eligibility from 60 to 65.

Unemployment Insurance

It is an established fact that among social insurance programs, unemployment insurance is typically adopted last (Flora & Heidenheimer, 1981). Scholars attribute this tendency to the difficult political process through which unemployment comes to be recognized as social risk beyond individual responsibility. The Korean case exhibits the same process of overcoming concerns that unemployment insurance would be a disincentive for work. Bureaucrats who first came up with the idea and participated in designing unemployment insurance intentionally emphasized active labor market programs over unemployment benefits and even named it “employment insurance,” not unemployment insurance, in order to stave off possible objections from conservative voices inside and outside the government. It is also noteworthy that bureaucrats within the Ministry of Labor took the initiative to promote its adoption and that labor unions were not significantly involved in the initial process. But the early 1990s saw the issue evolve into a national agenda co-opted by politicians, and both workers and employers began to express their opinions. All major parties incorporated unemployment insurance into their electoral platforms, and both the labor confederation (NCTU) and the employers’ organization jointly called for an early implementation of the system in 1993. The newly elected Kim Young

Sam government swiftly set to work, and the national employment insurance system went operational in 1995. The financial crisis ushered in a series of major expansions to cope with massive layoffs. Throughout this process, there was no serious political clash among labor unions, employers and the government, as seen in the development of health insurance and old-age pensions during this period. However, the level of unemployment benefits had been set low, and the active labor market programs were somewhat ineffective.

Social Assistance and Social Services

Finally, social assistance and services also have been significantly expanded since the Kim Dae Jung government. Social assistance has a different logic than social insurance. The four social insurance systems in Korea are employment-related and rely primarily on contributions from employers and employees. Social assistance is financed through general revenues and provides financial and other support to low-income households whose eligibility is determined by a means test. Korea's social assistance had been minimalist until the Kim Dae Jung government undertook a major reform to broaden its accessibility in the wake of the financial crisis to anyone falling under a minimum income level. The reform invited a politically charged debate. Although the pro-reform coalition of liberal civic groups, labor unions and scholars ultimately prevailed over conservative concerns about work disincentives and budgetary constraints, the contentious process led to a compromise of restricted eligibility and work requirements.³⁰ The new law was implemented in 2000. In the years that followed, government expenditures for income maintenance programs increased substantially, but to this day, a significant number of low-income households are still excluded. According to a 2005

³⁰ Kim and Kwon (2008) provide a detailed account of the bureaucratic process and conclude that the adopted final version reflects the involvement of the powerful Ministry of Planning and Budget.

government report, the number of people living in poverty and eligible for cash benefits reached 10.5% of the total population, but only 2.8% received government support and the remaining 7.7% did not (Kim & Kwon 2008: 228).

As for social services, a major turn was taken by the Roh Moo Hyun government. The Roh government took a proactive approach to expand social services, departing from the reactive, gradual expansion of provisions by the preceding governments. In response to worsening income inequality and poverty and to the inability of social insurance systems to provide adequate protection to the most vulnerable and needy, the government introduced new programs and policy initiatives geared toward strengthening the administrative and institutional infrastructure. In addition, the government started viewing social services as a promising area of job creation. But it should be pointed out that the foremost feature of Korea's social services system is its narrow targeting of low-income workers, rather than guaranteeing universal access to all in need of services regardless of income and resources (Lee & Moon, 2008).

Summary

To sum up, the development of social protection in Korea has the following characteristics. First, the institutions of social protection are strongly employment-centered. The rise of social insurance has primarily been attributed to increases in welfare provided by companies, which is premised on the stable employment relationship. Hence, labor market insiders at big firms or in the formal sector are the primary beneficiaries of social protection policies, including employment protection. The design of social assistance also demonstrates the employment-centeredness of the social protection system as a whole. Despite its recent expansion, social assistance and services are biased against universalism and are carefully

designed not to interfere with the labor market by providing limited protection to targeted low-income groups.

Second, the financing of Korea's social protection system—designed to minimize the financial burden on the government—is heavily dependent on the contributions of employers and employees. This feature had an important consequence: those who are unable to contribute—small employers with limited resources and labor market outsiders such as contingent workers—could not benefit from the expansion of social insurance. Consequently, there is a wide gap in coverage between big and small firms and between regular and atypical workers.

Third, the basic structure of social protection institutions was laid under the authoritarian Park government during its push for industrialization, and was focused on big manufacturing firms. Social insurance was launched from these big companies and the division between big firms and smaller employers has persisted despite the expansion of coverage and even under its development into a national system. The reason why the Korean welfare state has a strong employment-centered bias, therefore, is tightly related to its origin.

Fourth, although democratic governments were more active in promoting social protection, Korea's welfare institutions were first created and continuously grown under authoritarian governments.

Lastly, the major expansion of the welfare state took place in the late 1990s. The financial crisis was undeniably instrumental in bringing decisive change to the minimalist welfare state, and yet, the public debate and political process of welfare reform were already underway well before the financial crisis. The integration of decentralized medical insurance funds was first considered in the 1980s and the reform of the national pension became a major contentious issue in the early 1990s.

THE PUZZLES OF THE KOREAN WELFARE STATE

The developments of social protection institutions in Korea raise a number of theoretically challenging questions. First of all, it is puzzling that most of the current institutions have their origins in the period of authoritarian rule. Existing theories have emphasized that Korea's past authoritarian governments were hostile toward workers and that their export-oriented developmental strategy led them to keep supposedly "labor-friendly" social policy to a minimum (Haggard & Kaufman, 2008; Wibbels & Ahlquist, 2011). Although the level of government spending for social protection was relatively low, the authoritarian governments apparently did not shy away from promoting social insurance systems. Indeed, they were proactive in developing social insurance and persuaded initially reluctant social groups to participate in the state-initiated system.

A second question concerns the role of employers. The power resources theory assumes the hostility of employers toward social protection and approaches the development of the welfare state as a highly confrontational process between capitalists and workers. This description does not fit well with the Korean case. Employers were not an obstructive force—what Walter Korpi (2006) calls an "antagonist"—to the development of the welfare state. There were many cases in which employers and unions did not take confrontational, uncompromising positions.

Third, as mentioned earlier, the timing of the sweeping institutional expansion for social protection goes against the pessimistic prediction of globalization theorists. Social insurance systems were gradually expanded throughout the 1980s and dramatically enlarged in the late 1990s. Apparently, the coming of welfare reform coincided with rising levels of employment

insecurity, which I provided evidence for in Chapter 4. The literature suggests that globalization increases employment insecurity, with two possible implications for the welfare state. One group of scholars argues that in the wake of economic openness, workers will demand more active interventions by the government, which will result in the expansion of the welfare state. Another group argues that despite increased demands for social protection, governments around the world will find it difficult to provide protection due to financial constraints. At first glance, the Korean case seems to validate the first possibility; a closer look, however, suggests a more nuanced picture of policy responses to increasing worker insecurity. Changes in social policy involve choosing from among many different options, and linking worker insecurity to those specific choices requires more detailed analysis.

This point leads to the fourth question. Despite the remarkable expansion of social protection, economic inequality has been growing and a significant part of the population remains excluded from the social safety net. In particular, a noticeable disparity in coverage exists between large and small firms, regular and contingent workers, and the formal and informal sectors. Why is the coverage so low and uneven, and why does it fail to reach out to the needy? An increased level of social spending does not tell us about how benefits and resources are distributed among different groups. The link between worker insecurity and the growth of the welfare state, therefore, needs to be more finely specified.

EXPLAINING THE PUZZLES: A THEORY OF EMPLOYMENT INSECURITY

The literature fails to provide adequate answers to four puzzles in the development of the welfare state in Korea—the authoritarian origin of social insurance, the absence of employers’

antagonism, the timing of expansionary welfare reform and the disparities in coverage between sectors and workers. In this section, I discuss an alternative theory that can explain the distinct patterns of social protection institutions in Korea—including the most recent social policy change—and can account for the four puzzles. Rooted in the theoretical framework proposed in Chapter 3, this theory pays attention to the causal process through which an increase in employment insecurity led to social policy change in the specific context of Korea. In doing so, I rely on the accounts of employment protection change provided by the previous chapter and assume the variables that shaped employment protection institutions, such as the industrial structure and enterprise unionism, play a mediating role in the relationship between employment insecurity and social policy.

As explicated earlier, my hypothesis about the effects of employment insecurity on social policy change is bifurcated, depending on the design of existing social protection policies. If the welfare state was already developed to protect a wide segment of the population, a downward shift in employment protection does not lead to social policy expansion; rather, a contraction of social programs is likely to follow (first outcome). In contrast, when pre-existing social policies are narrowly focused on regular, skilled workers, then a marked increase in employment insecurity will lead to an expansion of social protection (second outcome). In this case, benefits tend to be contingent on employment status. Therefore, a weakening of employment protection means not only greater risks of job loss, but also risks of losing benefits and the means to cope with a variety of labor market risks. Faced with these double risks, workers are likely to pursue government-provided social protection with broader scope and coverage.

How does the Korean case fit into this theoretical framework? We are likely to see the second outcome in Korea, according to the criterion of initial social policy design. My previous discussion on Korea's employment protection system and social policy institutions strongly suggests that the proposed political logic linking employment insecurity to social policy expansion is highly plausible. Chapter 4 demonstrated that Korea's integration with the global market and its deindustrialization have produced a distinctive disparity between big firms and small employers. Regular or skilled workers at big firms enjoy better wages and more job security. With respect to welfare benefits, the previous section pointed out that the most defining feature of social protection in Korea is its employment-centeredness; the four major social insurance systems have grown from company-based provisions of benefits. In short, regular and skilled workers at big firms were protected by employment regulation and also received relatively favorable welfare benefits. When they began to experience heightened employment insecurity in the early 1990s, they became more interested in social insurance. The formal change in employment protection law in the late 1990s probably dealt regular and skilled workers a decisive blow. It does not seem far-fetched to interpret the remarkable welfare reform under the Kim Dae Jung government as a policy outcome triggered by lowered employment protection. Given the plausibility of this explanation, Korea is an excellent case to examine. The next question is: can this theory provide convincing answers to the four puzzles?

Solving the Puzzles

The first puzzle was why the authoritarian governments, otherwise hostile to labor movements, initiated social insurance. The proposed framework does seem to be able to explain this puzzle. The authoritarian leadership, especially the Park government, adopted a variety of

policy tools to develop comparative advantage in capital-intensive, high-skill industries in the pursuit of export-led industrialization. The production of heavy industrial goods requires skilled workers, which of course Korea was lacking in the 1970s. The shortage of skilled labor intensified with the deepening of industrialization, and the competition among manufacturing employers to secure skilled workers even became a major social problem by the mid-1970s (Yang, 2004).

Faced with the need to nurture skilled workers, the government sought a number of measures, and the company-based provision of various welfare benefits was one of them. The introduction of mandatory medical insurance in 1976 is best understood as such an effort. First, it only applied to large employers with 500 or more workers. Second, the insurance was designed to be administered by each employer, guaranteeing employers' discretion in administrative decisions. Therefore, the adoption of company-based medical insurance contributed to tightening the nexus between employment and medical benefits in the formal sector, and reinforced skilled workers' dependence on employers. Additionally, large employers, taking advantage of their oligopolistic power granted by the government, were able to offer other fringe benefits to secure skilled workers. The divide between large and small employers would develop into a full segregation of internal and external labor markets in the 1980s. In short, it is not surprising that Korea's authoritarian governments promoted social insurance, because this was not at all out of line with their developmental strategy.

The second puzzle concerning employers' compliant attitude toward social insurance is also well addressed in my theoretical framework. Given that social insurance was designed to foster workers' dependence on employers, large firms did not have a particular reason to be resistant. Small firms did have a reason to raise objections, and accordingly were exempted from

statutory requirements until a late stage of the expansion. Large firms were indeed very actively involved in the process of designing the health insurance system. The National Association of Medical Insurance Societies, a coordinating body of decentralized insurance corporations, was put into the hands of the peak business organization, the Federation of Korean Industries (FKI), which worked in close consultation with the Ministry of Health and Social Affairs (Cho, 2008a).

The employers' position on unemployment insurance, too, lends strong support to my theory connecting employment insecurity for regular, skilled workers to social policy change. Unemployment insurance has a very different logic than health insurance. Unemployment insurance aims to provide income support in case of a termination of employment, and thus unlike medical benefits—which are contingent on the relationship with employers—cannot be expected to facilitate workers' dependence on employers. For this reason, Estevez et al. (2001) argue that employment protection is an institutional mechanism of firm-specific skills economies and that generous unemployment benefits tend to be found in economies geared toward industry-specific skills such as Germany. In Korea, unemployment insurance was introduced in the 1990s. Initially, employers were mildly resistant, but later, they expressed their support for it. The reason why they came to view unemployment insurance more favorably is that they expected unemployment benefits to help soften workers' resistance to collective dismissal (Chung, 2008). Conversely, we may presume that unemployment insurance was not adopted earlier like other social insurance systems since it did not correspond to the company-based orientation of the social protection system.

The timing of unemployment insurance provides useful insight into the third puzzle. In light of the globalization debate in the literature, the expansion of welfare reform in the late 1990s and early 2000s was puzzling. However, my job insecurity-centered perspective can

explain the expansion of social protection. This period saw the collapse of employment protection for regular, skilled workers and a concomitant breakdown of the company-provided welfare system. It led workers to seek a broader, more comprehensive insurance mechanism. Unemployment insurance represents such an institutional mechanism. Similarly, the integration of individually administered health insurance into a government-run single payer system in 1999 was probably made possible because insecure workers saw it as better protection, now that they could no longer expect guaranteed “life-time employment” with a single employer.

The last puzzle concerned the sustained disparity in coverage of social insurance between regular and contingent workers, large and small firms, and formal and informal sectors. These categories tend to overlap. For example, regular workers are likely to work at large firms in the formal sector. Indeed, the divide between labor market participants is substantial. Table 5-1 confirms a significant difference in coverage between regular and atypical workers and between firms of different size. Generally speaking, regular workers are twice as likely to benefit from social insurance as atypical workers, and the gap between small and large firms is even bigger.

Table 5-1. Social Insurance Coverage Rates in Korea, 2008

| Firm Size | Social Insurance | Non-Regular Workers (%) | Regular Workers (%) |
|----------------------------------|------------------|-------------------------|---------------------|
| Total | Old-age | 36.6 | 75.7 |
| | Health | 37.7 | 75.9 |
| | Unemployment | 34.5 | 63.8 |
| Firms with less than 5 employees | Old-age | 7.8 | 25.6 |
| | Health | 8.3 | 25.0 |
| | Unemployment | 7.1 | 23.3 |
| Firms with 5 or more employees | Old-age | 47.5 | 85.0 |
| | Health | 48.8 | 85.2 |
| | Unemployment | 44.8 | 71.2 |

Source: Chang (2006), *Integrating Social Insurance Administrations*, p.191.

Why do the national social insurance systems exhibit such a deep divide between labor market insiders and outsiders and why do they tend to accrue more benefits than outsiders? The intertwined development of Korea's employment and social protection system helps us understand the policy outcomes following the expansion of social insurance into the national system. In explaining the employment protection system, Chapter 4 emphasized that Korea's concentrated industrial structure helped to solidify strong employment protection for regular workers and to maintain the division between internal and external labor markets. We can also detect the influence of industries on the development of social protection. Social insurance was initially built for the industrial sector, which required a stable supply of skilled workers, and it was designed to complement, rather than replace, company-based welfare benefits. The weakening of the stable employment system motivated regular, skilled workers to seek more comprehensive social policies. The expansion of social insurance, however, did not extend beyond the existing boundaries in the labor market; entitlements were determined by contributions, rather than offered as universal rights. Because the disadvantaged were not able to make contributions to social insurance, they did not receive protection from the system.

In summary, the theoretical framework advanced by this dissertation can offer persuasive explanations to the four puzzles of social policy in Korea. Having confirmed that the patterns of Korea's welfare state development fit comfortably with the logical consequences of my theory, in the next section, I turn to the most recent phase of social policy change to provide more direct evidence for my theory. In particular, I will analyze how employment insecurity shaped workers' preferences for or against changes in broader social policies, and I show how threats to their job security motivated them to respond to and participate in the political debate surrounding old-age,

health care and unemployment insurance systems. If a weakening of employment protection is a direct cause of social policy expansion, we should be able to observe that it changed workers' preferences regarding social policy and then caused them to act on their changed preference.

EXPLAINING THE RECENT WELFARE REFORMS

The expansion of old-age pensions and health insurance in Korea provides strong evidence that in some cases employment protection is not independent of other social policies. The modern industrial economy generates different types of labor market risks. Each form of social insurance is supposed to help people cope with particular risks: pensions for those who are too old to work, health insurance for those who are sick and unemployment insurance for those who lose their job. However, when social protection goes hand-in-hand with having a stable relationship with a particular employer, as in Korea, the rise of employment insecurity could generate a forceful societal impulse to change a variety of social protection institutions, not just unemployment insurance. In this section, I analyze momentous phases in the reforming process of health, old-age and unemployment insurance to examine the effects of employment insecurity. The reform processes of health and old-age insurance mobilized a wider array of social groups than did unemployment insurance. Unlike the risk of unemployment, sickness and old-age affect the population at large. Nonetheless, all three cases exhibit the central role of employment insecurity for regular workers in actually changing policy.

Health Care Reform

First, I discuss the political process of health care reform. The key issue in health care reform was the integration of decentralized health insurance societies, and after a series of failures, it finally took place under the Kim Dae Jung government. Analyzing why reforms succeeded in 1999, when earlier attempts failed, will support my argument that employment insecurity among secure workers is an important factor in changing broader social policies. In particular, we can confirm how the preferences of pivotal workers shifted and, as a result, how the balance between opposing voices over the integration reform tipped in favor of reform. As discussed earlier, the health insurance system continuously grew throughout the 1980s, starting with employees at large urban companies and extending to rural areas and to the self-employed in urban areas. The most important feature of the system, however, was an independently-operated insurance society for each new group of people to be covered. This was an addendum to the initial system, which was designed to provide benefits only to workers at big companies. The expansion of coverage involved no risk-pooling between insurance funds and minimal government subsidization. As a consequence, the protection system produced severe imbalances and inequities between “rich” and “poor” insurance societies.

Table 5-2 illustrates the degree of disparity between public employees’ insurance, employed workers’ insurance and regional self-employed insurance by comparing the ratio of benefits to contributions. Big companies, due to the economy of scale and their low-risk employees, tended to have abundant funds, while small-sized insurance societies and those in rural areas were invariably on weak financial footing. Members of “poor” insurance societies had to pay higher premiums, but at the same time could not receive equal benefits and services. This particular group of people started to voice their complaints and to demand the integration of insurance funds.

Table 5-2. Comparison of Benefits and Contributions in Health Insurance Societies in Korea, 1998

| | Government Employees' Insurance | Employee Insurance | Regional Self-employed Insurance |
|--|---------------------------------|--------------------|----------------------------------|
| Yearly Contribution per Person (in Korean Won) | 127,002 | 137,412 | 138,345 |
| Yearly Benefits per Person (in Korean Won) | 186,180 | 153,372 | 144,514 |
| Ratio of Benefits to Contributions | 1.47 | 1.12 | 1.04 |

Source: Wong (2004), *Healthy Democracies: Welfare Politics in Taiwan and South Korea*, p. 89.

Other drawbacks of fragmentation included economic inefficiency and overall inadequacy of benefits. Since a decentralized system incurs higher administrative costs economy-wide, the overall level of benefits was lower than it would have been in a centralized system. In addition, since the determination of premium rates and benefits was up to each insurance fund, the insured were in a disadvantaged position vis-a-vis their insurers and healthcare providers. If the societies were integrated into a national system run by the government, their collective voice probably would be better represented. Indeed, despite the progress in expanding insurance coverage to a greater number of the population, both the average level of benefits and the scope of medical coverage remained very low. For example, 84% of the nation's total health care bill was paid directly out-of-pocket, with only the remaining 16% paid by insurance in 1980, and these percentages did not change very much throughout the 1980s (Wong, 2004). Therefore, the much-touted universalization of health care was achieved only at a

superficial level. Recognizing the economic efficiencies and structural weaknesses of the system, the government considered the integration option as early as 1980, only to push it aside.

The most significant voice calling for health care reform first came from farmers, not long after the expansion of health insurance into rural areas in 1988. The disgruntled farmers, allied with social movement groups, made three demands: the integration of health insurance societies, an increase in government subsidies and an expansion of the range of benefits and health care services covered by insurance. Their effort for integration almost succeeded, but was ultimately thwarted when President Roh Tae Woo, pressured by opposition groups, vetoed the reform bill in 1989. Who opposed? Obviously, large businesses voiced strong opposition since the integration would deprive them of an enormous amount of funds.³¹ Workers at these companies, moreover, were equally unenthusiastic about integration. Their ambivalence about the integration measure was reflected on the position of the Korean Confederation of Trade Unions (KCTU). The KCTU expressed its opposition in 1980 when the integration first was being discussed, and in this second attempt at integration, they tried to distance themselves as far as possible from the pro-reform camp. Then, in the third attempt, it articulated its downright opposition, claiming that integration would be unfair for workers since their contributions would, in effect, be used to subsidize other high-risk groups (KCTU, 1999). Although the KCTU cannot be considered a legitimate voice representing workers at large in this period, its attitude parallels the general skepticism and disinterest of workers. Generally speaking, as long as workers had a stable, secure job, they were content with the existing system and felt that integration would not be in their interest.

³¹ The accumulated funds, which were significant sums for large companies, allowed them to loan from banks 10 times the amount of funds, becoming an important source of capital for firms (Cho, 2008b).

The development of the labor market and the regulatory change in employment protection in the late 1990s, however, changed workers' preference regarding integration and, as a result, and the balance of power between opposing voices. First, the democratic labor movement, represented by the Federation of Korean Trade Unions (FKTU) joined the pro-reform camp.³² Due to widespread underreporting of income by the self-employed, there were significant concerns about potential unfairness for workers. The underreporting of income for self-employed professionals or those who draw their incomes from property had always been an administrative challenge for Korea's tax authorities, but with respect to the integration of insurance societies, it was particularly disconcerting for wage earners. Since the premiums would be determined by income levels, high-income tax-evaders would likely be charged unfairly low rates at the expense of salaried workers. The opposition groups, including big business, waged public relations campaigns using this argument to persuade workers and the general public to oppose integration. This time, however, the pro-reform groups gained widespread support across society. But given the potential risk of unfairness, why did workers come to favor the integration of insurance societies?

Unlike in the earlier period, many workers were now experiencing a greater level of labor market insecurity and would not benefit from the segmented system. As pointed out, the decentralized system produced economic inefficiency, decreasing benefits overall and suppressing the scope of medical coverage. In addition, it became increasingly clear that the system would no longer benefit workers at big firms. The insurance funds at big companies tended to record large surpluses that were not translated into an expansion of covered services or a decrease in co-payments. Given the increased risk of job loss and unstable employment,

³² The FKTU, even before its formal launching in 1995, announced that it would pursue two goals for the year 1995: labor reform and health care reform (*ibid.* :88).

workers at these large firms realized that integration could provide them with better protection if they fell ill and reduce their medical costs.³³ In short, the success of the 1999 health reform was made possible with support from workers, who, amidst heightened labor market insecurity, began to prefer more expansive social protection policies.

Pension Reform

We now turn to changes in social security for the elderly. The first instance where we can confirm the central role of employment insecurity is the controversy over the relationship between severance payments and pensions. Mandatory severance payments have long been a key feature of Korea's social protection system, even after the introduction of major social insurance systems. The 1953 Labor Standards Act established the statutory requirement that employers should set aside at least a month's worth of salary per year of service for regular workers and give it to them as a retirement benefit when they leave their job, regardless of the cause of separation. This system is not common around the world, and in Estevez-Abe's (2008) term, it is the "functional equivalent" of both unemployment insurance and old-age social security. The major difference is that the severance pay is employers' liability and provided in a lump-sum upon separation. These two features made the Korean system of severance pay an ineffective safety net for many workers, especially during the financial crisis. The massive scale of bankruptcy in the late 1990s left unemployed workers with empty hands. Even before the financial crisis, one of the motivations for introducing social security was to provide retirees with more reliable protection to than severance benefits.

³³ The Health Solidarity Coalition promoted a campaign to persuade workers to support the integration based on these arguments (Cho, 2008b).

However, the introduction of the pension system placed workers and employers at odds with one another. Employers, raising concerns of a double financial burden, argued that the pension system should completely replace the severance pay system. Workers strongly resisted, claiming that severance payments are deferred wages due to employees. As discussed earlier, the developmental strategy of the authoritarian governments encouraged large companies to introduce a variety of welfare benefits for their employees to attract skilled workers, and in the absence of effective social insurance systems, the company-based welfare system provided social protection to a narrow segment of workers in the formal sector. The reason why the pension system was introduced is because this firm-level provision of protection proved increasingly inadequate amidst increasing employment insecurity. In addition to their support for the pension system, workers sought a variety of insurance measures—including the preservation of the mandatory severance payment system—to cope with greater insecurity. To address the inadequacy of the severance payment system, a requirement that severance payments should take precedence over other financial obligations in the event of bankruptcy was instituted in 1989 (KLI, 2000). However, the Constitutional Court ruled it “not constitutional” in August 1997, on the eve of the financial crisis. This decision led employers to reiterate their demands for the complete removal of the severance payment system, thus putting workers—who were increasingly concerned about the security of their jobs and income—on the defensive.

The pension reform of the Kim Dae Jung government took place against this backdrop. As health insurance finally became universal by including the self-employed in urban areas, the pension system was approaching the last stages of its expansion into a national system—extending its reach to urban, non-wage workers. However, preparatory studies revealed that with the addition of this vast group of people—estimated at ten million—the generously designed

pension system would be financially unsustainable (Yang, 2008). The fund, which had yet to reach maturity, was projected to go into deficit by 2022 and to be depleted by 2031 (OECD, 2000). Before carrying out universalization, the Kim Young Sam government decided to take drastic measures to guarantee the financial soundness of reform. The plan included both parametric and structural reforms: adjusting the levels of contributions and benefits³⁴ and contracting out earnings-related components. Not surprisingly, this plan was met with strong opposition from labor organizations and other NGOs. Workers were particularly upset about the curtailment of benefits, and blamed the government for its financial recklessness. In fact, the huge sum of accumulated funds was being appropriated by the government without any constraints since there were no effective mechanisms in place to make it responsible to the insured. Prior to any reform that might lower the level of benefits, workers wanted to place the pension fund under democratic supervision.

Interestingly, they did not object to expanding pension benefits to the self-employed, unlike their opposition to the universalization of health insurance. The absence of workers' resistance was the reason why the incoming Kim Dae Jung government was able to implement universalization while rolling back the structural reform plan which the World Bank strongly recommended (Yang, *ibid.*). The difference in worker attitudes reflects the distinctive nature of pensions. Since the statutory expansion of coverage for health insurance would lead to an actual expansion in the number of the insured—as basically everyone needs medical care—any redistributive effects between regular workers in the formal sector and those in the informal sector would show up immediately. In contrast, pensions are typically paid out long after

³⁴ The Kim Young Sam government's plan was to lower the income replacement ratio from 70% to 40% on average, which is a radical reduction. The actual adjustment made under the succeeding Kim Dae Jung government was much milder; lowering to 60%. The government plan was 50% but compromised further in the National Assembly. The two national labor organizations were consistently opposed to the 50% plan (Yang, 2008).

workers begin to make contributions and therefore, the supposedly redistributive effects would be distant and uncertain.

Moreover, the level of compliance was low among self-employed and atypical workers and small firms. In fact, the pension system was designed to be “progressive,” that is, low income groups have a higher income replacement ratio. Therefore, within the system, there would be redistributive effects from high income groups to low income ones. Unfortunately, it turns out that the disadvantaged, who would benefit from the system, could not afford to make contributions for the benefits that would only be realized in a distant future 20 to 30 years later. When comparing the actual coverage rates for labor market insiders and outsiders, it is insiders who are disproportionately covered (see Table 5-1). In other words, the national pension is a system that was introduced to provide regular workers with a better shield from the changed economic environment.

The Introduction of Unemployment Insurance

Lastly, the case of unemployment insurance demonstrates the key role of employment insecurity in effecting policy change. As the political process of introducing and expanding unemployment insurance moved forward, labor organizations approached reforms cautiously since they were worried about the possibility that introducing an unemployment benefit system insurance could provide an excuse for employers to liberally use collective dismissal. Accordingly, the democratic labor movement, now gathered under the National Congress of Trade Unions (NCTU), demanded that the introduction of unemployment insurance should be accompanied by statutory restrictions on collective dismissal (KLI 2000). In fact, this concern was not unfounded. The Korean Employers’ Federation (KEF), employers’ organization, indeed

viewed the introduction of unemployment insurance positively, anticipating that it might mitigate workers' resistance to collective dismissal (Chung 2008: 182). On the other hand, the pro-government, cooperative KCTU was more proactive than the democratic labor movement, and as early as 1989, it submitted a petition for the implementation of unemployment insurance. It also tried to strategically use the issue in negotiations with businesses. As a result of their mutual interest in unemployment insurance, the KEF and the KCTU made a public announcement for their joint support for the government plan in 1993. This consensus among the KEF, KCTU and the government invited criticisms from the NCTU. Although it was not opposed to unemployment insurance *per se*, the government plan, in its view, fell short of an effective mechanism to protect workers unemployment: the coverage was too narrowly targeted to large firms and the benefit levels too low. The superficiality of the plan seemed to come from the government's unwillingness to assume any substantial financial responsibility, and was viewed as evidence that the real motivation was not to provide protection to workers but to buy them off in exchange for a flexible labor market. Specifically, the NCTU demanded that the coverage should be extended to firms with 5 or more employees, rather than 30 or more, and that the government should match employers' and employees' contributions to unemployment benefits, as well as pay for any deficits that might be incurred from extending coverage to small firms (KLI, *ibid.* p. 254-255).

Despite this demand from the emerging labor movement, the government implemented a much weaker version of insurance, with limited coverage and benefits. Coverage expanded when the financial crisis forced the government to take prompt action. The IMF also demanded a strengthening of the system. However, recall that the previously thwarted labor reform— attempts to introduce collective dismissal and dispatched worker agencies—was finally passed

during this period. In fact, the IMF's demand for a stronger safety net was premised on the implementation of labor market liberalization. In the context of impending liberalization of labor market protection, Labor unions at the Tripartite Commission could not help but accept the offer of strengthening the system.

Despite the rapid expansion of unemployment insurance, the disparity between workers, firms and sectors has persisted, following the distinct pattern observed in other social insurance systems. The development of political negotiations revealed diverging preferences between the two labor organizations and the employers' organization, suggesting a certain level of replacement effects between employment protection and unemployment insurance. In summary, unemployment insurance was promoted as compensation or a bargaining chip for the loosening of employment protection by businesses and the government, and once labor reform exposed workers to heightened unemployment risks, labor unions tried to maximize the level of protection.

CONCLUSION

In this chapter, I have discussed the development of social protection policies in Korea to illustrate the political logic behind linking employment insecurity to social policy change. I began with a summary description of the Korean welfare state, noting important features that existing theories seem unable to explain. Then, I provided answers to the puzzles, using the theoretical framework this dissertation proposes. Specifically, my main hypothesis was that when protection against labor market risks is inseparable from stable employment, an increase in employment insecurity will lead workers to support an expansion of social protection beyond

employment-based protection. I have shown that the key role of regular, skilled workers in the economy can account for the authoritarian origin of social insurance, the compliant attitude of businesses, the timing of social protection expansion and the limitation of that expansion. I have further demonstrated that in recent instances of major social policy reform, workers' concerns about job security were a major impetus.

The traditional explanations of social policy reform in Korea tend to emphasize the shock of the financial crisis, the ideological orientation of the Kim Dae Jung government or the role of bureaucrats. First of all, it is true that bureaucrats played a major role in drawing up the specific details of social policy and in some instances they introduced the idea of social insurance in the absence of significant societal demands. However, it should be pointed out that politicians embrace the recommendations of bureaucrats only selectively and strategically. Even if politicians decided to push for a specific policy submitted by bureaucrats, powerful political elites including presidents were also constrained by the preferences of important social groups, in particular, workers in key sectors of the economy. Finally, the financial crisis and President Kim were undeniably instrumental in bringing about welfare reforms. However, the expansion of social protection was already underway as a consequence of economic and structural changes in Korea. As this chapter has shown, increased employment insecurity not only caused workers to change their preferences to favor social policy expansion, but also it affected specific choices made by the Kim government.

CHAPTER SIX

Conclusion

The process of changing labor laws is not easy. It is invariably a highly politicized process with workers, employers and the government colliding with each other. It is a fair description that “labor law is a highly visible and concrete policy statement around which political battles are fought, won and lost, and around which political support is attracted, granted and withheld” (Collier & Collier, 1979: 971). Many governments in developing democracies have been pressured to lift restrictions on and better protect workers’ rights to establish unions, strike and bargain collectively. Accordingly, recent scholarship has begun to investigate the patterns of labor law regimes and the sources of variation across countries and time.

This dissertation has examined one particular type of labor law that has increasing importance in labor politics for a number of nations—laws concerning workers’ job security. Regulations for labor contract terms have a direct impact on workers and firms. They could influence employment opportunities, the quality of jobs available in the labor market, and workers’ income stability and human capital development over the course of their career. Employment protection laws, therefore, in various ways affect workers’ economic insecurity. They could also shape firms’ decisions not only regarding the hiring and firing of workers, but also regarding investments in employees’ skills and even overall business strategies.

Employment protection laws have emerged as contentious issues not just in nascent democracies, but also in established democracies. It is indeed interesting and noteworthy that employment protection is widely used across countries with varied levels of economic development and democracy. At the same time, the degree of cross-national variation is

substantial and each country's level of protection is considerably stable over time. Yet, pressures to liberalize employment protection have intensified in recent years and a number of governments have attempted to reform various aspects of employment protection institutions. The numerous episodes of deregulatory reform serve as illustrative testaments that employment protection is indeed a focal point for political battles between different social groups.

Workers tend to oppose the liberalization of employment protection, but they view it more negatively in some cases than in others. Some governments have pursued a more drastic approach to changing regulations while others have maintained a protective regime. Some attempts at liberalization were successful whereas other attempts were met with immense protests and opposition from workers and consequently failed. There has been little research to help us understand these dynamics.

This dissertation is an effort to fill this lacuna. Paying attention to the direct impact of employment protection law on workers' job insecurity, it attempted to provide an explanation for the determinants of employment protection and the consequences of employment protection change for social protection. In particular, it examined two important factors that have been considered to be influential on worker insecurity—international trade and the growth of the service sector— and found that both are important determinants of the level of employment protection. However, their effects do not appear to be uniformly negative, as has customarily been assumed. Trade seems to have had a positive impact on employment protection in countries with an abundance of skilled labor while skilled workers in Latin America have seen employment protections decline in the wake of economic openness.

In addition, because previous studies of the welfare state have emphasized labor market insecurity, this dissertation examined the relationship between employment protection and social

protection. First of all, I found consistently strong effects of employment protection on social spending. Second, employment protection also seems to have opposite effects on social protection for the OECD nations and Latin American countries. To demonstrate the causal mechanisms suggested through the two sets of quantitative analysis, I used a case study of Korea. In the remainder of this concluding chapter, I discuss some implications of these findings, the limitations of this dissertation project and some directions for future research.

IMPLICATIONS

This dissertation research started by finding the current literature inadequate in offering empirical evidence for the role of employment insecurity, which is supposedly a key mechanism connecting external and internal economic changes to social protection. If, as is conventionally postulated, globalization and deindustrialization are to be major sources of worker insecurity, their effects must be manifested in institutions of employment protection. On the other hand, it is reasonable to assume that the effects of globalization and deindustrialization on social protection are mediated by labor market institutions such as employment protection. Furthermore, employment protection in its own right could shape societal demand for social protection.

The findings of this dissertation strongly suggest the significance of employment protection both as an independent and a dependent variable. The role of other labor market institutions and labor movements in providing workers with protection has been well noted. Centralized collective bargaining, the extension of collective bargaining coverage and strong, unified labor movements have been shown to help counteract the negative effects of market forces in different ways. However, the effect of employment protection laws, which have

immediate relevance for workers' individual and collective security, has been largely neglected. One of the primary contributions of this research is to show that it occupies a central place in the politics of social protection. Using the two large-N quantitative analyses, I probed the effects of globalization and deindustrialization on employment protection and the role of employment protection in social protection respectively, demonstrating the mediating role of employment protection linking economic and technological changes to governments' intervention to shelter workers from labor market insecurity generated from those changes.

The findings of this research also call into question the prevalent view of globalization and deindustrialization. The conventional approach in the literature depicts global market integration as unequivocally disadvantageous to workers in terms of job security. Both quantitative and qualitative evidence in this dissertation challenge this view and show that policy responses to global forces vary across countries and that in some cases, active involvements in the global market may have strengthened employment protection.

Similarly, my findings raise an objection to the revisionist view, which stresses that deindustrialization, not globalization, is the real source of growing labor market insecurity. The statistical results in this dissertation differentiate between the OECD and Latin America and I proposed an explanation that highlights the different process of structural change for developed and developing worlds. To support my argument, the case study illustrated that despite continued growth over a long period, the service industry has evolved internally in terms of inter-industry labor movements and the industrial compositions of the service sectors. This dissertation, therefore, makes a case for a nuanced approach to the role of globalization and deindustrialization in the politics of social protection, and highlights the need for the "thick" analysis of causal mechanisms that lurk within statistical relationships.

In addition, this dissertation contributes to the ongoing debate on the effects of globalization on the welfare state in the developing world. Recent scholarship has begun to pay attention to the different pressures that less-developed nations face and to their diversity of social protection institutions. The statistical results in Chapters 2 and 3 suggest that worker insecurity might increase as a result of globalization, but it could also trigger social policy expansion. The transformation of social protection in Korea illustrates how change in employment protection could lead to social policy innovation. These findings reject the simplistic view that in countries with less developed social protection institutions, globalization entails decreasing social protection.

In summary, this dissertation has substantial implications for the study of social protection. It enhances our understanding of the role of worker insecurity in the welfare state by bringing to attention the significance of employment protection. The role of worker insecurity in the political conflict over the welfare state across developed and developing countries is confirmed by this study. However, this dissertation also raises a number of important questions regarding the conventional assumption that highlights the negative impact of globalization and deindustrialization negatively impact job security.

FUTURE WORK

Quantitative Research

This dissertation has several limitations, which suggest directions that future research could take to strengthen the arguments and empirical analysis presented here.

First, the statistical testing could be refined and made more rigorous. Due to data constraints, I had to rely on crude measures or proxies for some variables. For example, union density, which presumably captures organized labor's power, was not controlled for in the analysis of Latin American countries. If it indeed plays a significant role, leaving it out might have biased the results. In addition, the level of total social expenditures might not be the best way to capture political processes that follow change in employment protection. In particular, I advanced an argument that a decrease in job security could motivate labor market "insiders" to seek the expansion of social protection coverage. However, an institutional change might not necessarily involve an increase in total expenditures.

I also emphasized the role of pre-existing institutions of social protection in shaping social policy responses to employment protection change. My explanation for the different causal arrows for the OECD and Latin American samples in the relationship between employment protection and social spending was built around the assumption that social protection systems in the less developed world tend to have more "insider" bias than mature welfare states in the developed world. This assumption might over-generalize variation in the welfare regimes across developing countries and not hold true in some of them.

Furthermore, the reliability of my statistical results will be enhanced if they are corroborated by different estimation models.

These limitations together suggest that the results from my statistical tests should not be taken as conclusive evidence. Nonetheless, the preliminary support from the somewhat limited statistical analysis is quite encouraging. For example, in spite of the disadvantage of using the level of total social spending, the employment protection variable emerged as a good predictor in

the Latin American sample. It is also encouraging that two different datasets of employment protection produced similar results for the OECD cases .

Based on this initial evidence, quantitative research could be improved in several ways. Disaggregated measures of social spending might provide important information that can determine whether the insider bias in the old system of social protection in less developed economies is transformed by change in employment protection. Some welfare programs and social policy have more insider bias than others. For example, pensions in many countries tend to benefit the middle-class. Investments in tertiary education also tend to deepen labor market inequality by benefitting the relatively well-to-do. Therefore, a shift in budgetary priorities between different welfare programs could help uncover characteristics of social policy change.

Another improvement could be made by incorporating some measure of pre-existing social protection institutions. I argued that they inhibit the expansion of mature welfare states and facilitate the growth of emerging welfare states. If statistical tests can capture the scope and coverage of social protection and the financial constraints of pre-existing welfare programs, the validity of my argument could be better assessed.

Qualitative Research

To compensate for the limitations of statistical testing, I have used the case study method. Qualitative analysis enabled me to go beyond the limited scope of employment protection data and to explore the causal linkages in a more nuanced way. Although I provided justification for using one case in Chapter 4, there might be objections to this strategy. Since the samples used for statistical testing were dictated by the availability of data for employment protection, it was crucial to find a case that could reveal whether different causal processes unfold in developed

and developing economies and would not be subject to any unobserved idiosyncrasies that might be present in Western democracies and Latin America. By these criteria, Korea is an excellent choice, but adding more cases would greatly expand the external validity of this study.

Future research would benefit from studying cases drawn from Latin America, Western democracies and East Asia. Latin American nations are the most extensively studied cases in the literature on labor reform. A comparison with Latin American cases will reinforce the statistical findings of this dissertation.

There is variation in employment protection, even among advanced democracies, ranging from liberal regimes with almost no restrictions on the dismissal of workers to highly protective systems such as Southern European nations. Countries with strong employment protection have felt great pressure to liberalize and some of them, most notably Spain and the Netherlands, undertook labor reforms. These cases would provide important information that could be used to evaluate my hypothesis about the causal mechanism between globalization and deindustrialization and employment protection and the impact of employment protection change on the welfare state.

Additionally, given the assumed commonality of the East Asian NICs (Newly Industrializing Countries) and Japan, as purported in the literature of developmental states in East Asia, comparing Korea's experience with another East Asian country could also expand the analytical horizon. For example, Japan's labor market and industrial relations are often assumed to be a proxy for understanding the Korean system. Enterprise unionism, strong employment protection for regular workers in big companies and the recent growth of contingent workers are often references as features that the two economies share. But differences between the two countries have been also noted. Although the number of contingent workers has increased

significantly in Japan, regular workers do not seem to have experienced a drop in employment security. Japanese firms tend to value stability in their employment relationships with core workers and are reluctant to dismiss them during economic downturns (Genda & Rebick, 2000; Thelen, 2002; Thelen & Kume, 1999, 2006). This could be related to the greater stability of employment protection for regular workers in Japan, compared to Korea.

To sum up, there are multiple ways in which this research project could be developed to enhance our understanding of the role of employment insecurity in labor politics and welfare politics. This dissertation showed that looking into employment protection institutions can help us to better understand the impact of globalization and deindustrialization on worker insecurity and the linkage between worker insecurity and social protection. (OECD, 2000)

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